FOR GREATER SUSTAINABILITY

Annual Report 2011

TAISHO PHARMACEUTICAL CO., LTD.

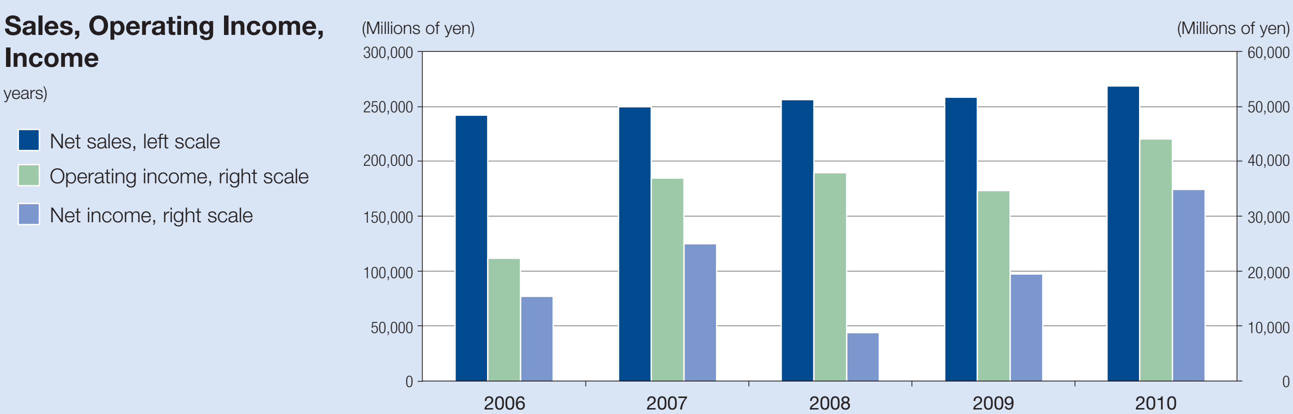
Taisho Pharmaceutical Co., Ltd. is a leading company in the over-the-counter (OTC) drug market in Japan. At the same time, Taisho Pharmaceutical boasts expertise in the area of ethical pharmaceuticals, commanding the top domestic market shares for certain drugs. More recently, the Company has made a full-fledged entry into the OTC drug market overseas.

SUSTAINABILITY SUPPORTED BY GROWTH ON TWO FRONTS

Contents

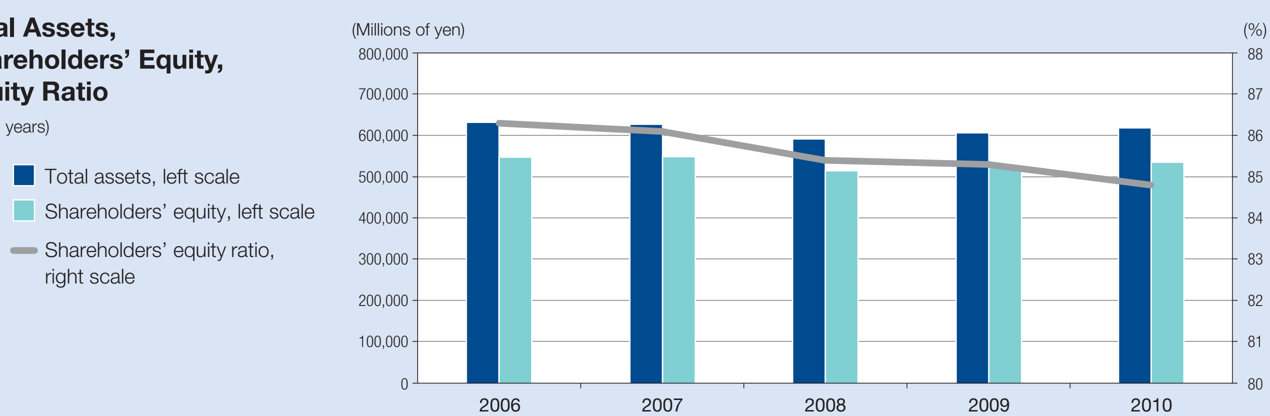
Net Sales, Operating Income, Net Income

(Fiscal years)



Total Assets, Shareholders' Equity, Equity Ratio

(Fiscal years)



* In this report, fiscal years begin on April 1 of the year indicated and end on March 31 of the following year.

Performance Highlights

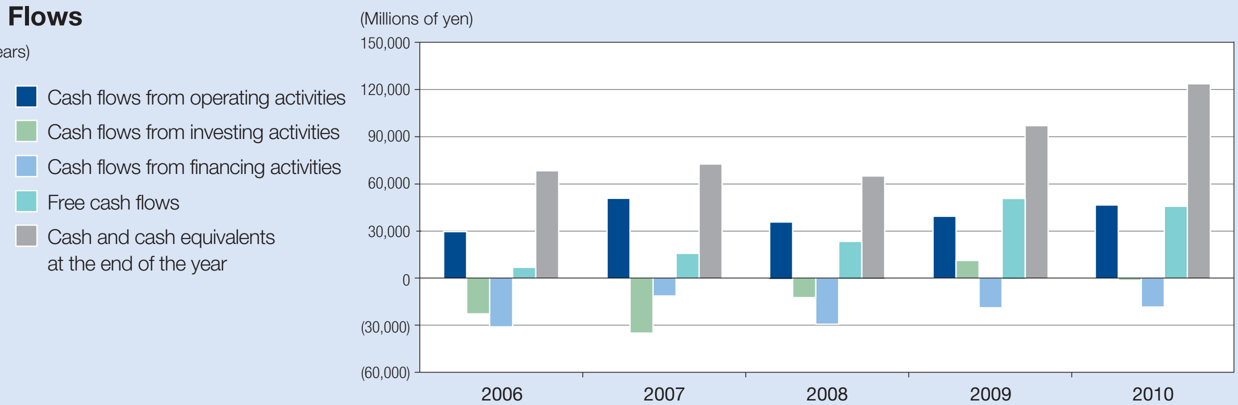
Significant profit growth supported by robust performance of core-brand products in both segments

Strong sales of three major brands in the Self-Medication Operation Group

Hit the ¥100.0 billion sales mark for the first time in the Prescription Pharmaceutical Operation Group

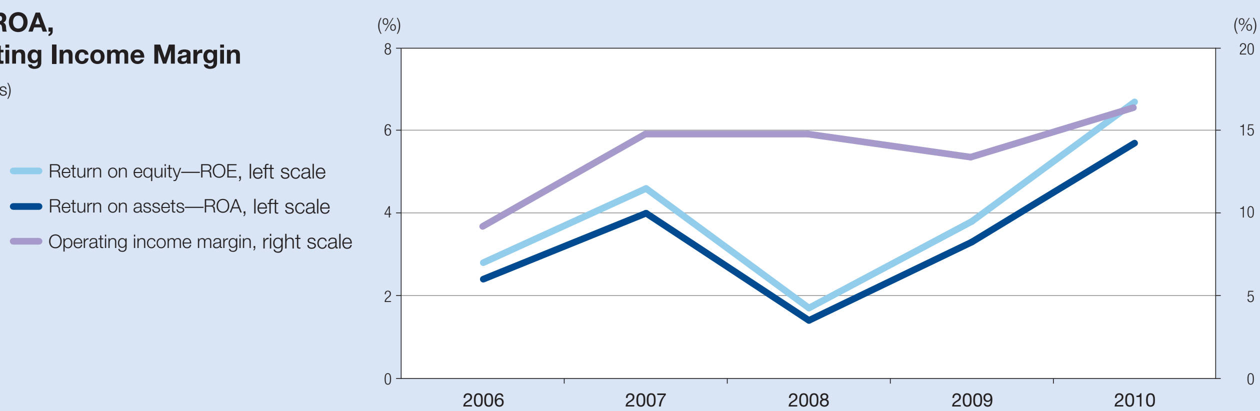
Cash Flows

(Fiscal years)



ROE, ROA, Operating Income Margin

(Fiscal years)



I would like to take this opportunity to provide an overview of Taisho Pharmaceutical Co., Ltd.'s consolidated performance for fiscal 2010, the fiscal year ended March 31, 2011.

First and foremost, I would like to express heartfelt sympathy for everybody affected by the Great East Japan Earthquake in March 2011.

The earthquake caused some damage to the buildings and facilities at some of our branch offices and factories. However, we have been working together as a team and have already completed the recovery and restoration of these buildings and facilities. In this time of national crisis, we, as a pharmaceutical company, are committed to providing products and information that accurately meet consumer needs.

I would like to take this opportunity to provide an overview of Taisho Pharmaceutical Co., Ltd.'s consolidated performance for fiscal 2010, the fiscal year ended March 31, 2011.

The Self-Medication Operation Group achieved results almost on par with its targets, supported by across-the-board increases in sales of products under the segment's three major brands, namely,

the *Lipovitan* series of energy drinks, the *Pabron* series of cold remedies and the *RiUP* series of hair regrowth treatments. Also, sales in our Asian OTC drug business expanded, thanks to full-year contributions from operations that we acquired from U.S.-based Bristol-Myers Squibb Company during the previous fiscal year. The Company has steadily promoted activities to put the acquired operations on track.

The Prescription Pharmaceutical Operation Group enjoyed increases in unit sales of its existing core products, namely, the macrolide antibiotic agent *Clarith* and the peripheral vasodilator *Palux*. The segment also enjoyed increases in sales of more recent released products—the penicillin antibiotic agent *ZOSYN* and the new quinolone antibacterial agent *OZEX* fine granules for pediatric use. These sales increases pushed up consolidated subsidiary Taisho Toyama Pharmaceutical Co., Ltd.'s sales to a record-high ¥89.8 billion, which, in turn, enabled the Prescription Pharmaceutical Operation Group to post sales exceeding the ¥100.0 billion level for the first time ever. As a result, Taisho Pharmaceutical's consolidated net sales grew 3.9% from fiscal 2009 to ¥268.6 billion.

On the earnings front, operating income surged 27.1% year on year to ¥44.1 billion, reflecting a reduction in selling, general and administrative expenses and other factors. Despite the posting of an extraordinary ¥1.1 billion in losses related to disaster due to the Great East Japan Earthquake, net income soared 79.1% to ¥34.9 billion, largely owing to a significant improvement in equity in earnings of affiliated companies.

With due consideration given to these results as well as to uncertainties in business outlook due to the impact of the disaster, the Company declared an annual dividend of ¥27 per share, unchanged from that of fiscal 2009.

Taisho Pharmaceutical has decided to incorporate holding company Taisho Pharmaceutical Holdings Co., Ltd. The planned date of incorporation is October 3, 2011. This move is based on our judgment that, to achieve our sustainable growth, we must establish a Group framework that enables us to more effectively allocate our management resources and further strengthen our competitiveness. Under the new corporate structure, Taisho Pharmaceutical aims to realize balanced growth in both of Self-Medication Operation Group and the Prescription Pharmaceutical Operation Group and to generate synergies in these two segments, thereby maximizing the corporate value of the Taisho Pharmaceutical Group.

I would like to express our sincere thanks to you, our fellow stakeholders, in hope of your continued understanding and support.

Akira Uehara

Akira Uehara
Chairman and CEO

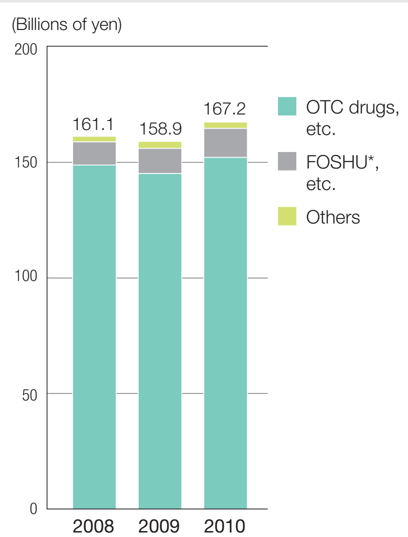
Stability of the Self-Medication Operation Group, Sound Growth of the Prescription Pharmaceutical Group

Self-Medication
Operation Group

In keeping with Taisho Pharmaceutical's status as the leading OTC drug company in Japan, the flagship Self-Medication Operation Group boasts a number of top-brand products. Simultaneously, the Self-Medication Operation Group is bolstering operations in the Southeast Asian market to underpin the additional growth of Taisho Pharmaceutical.

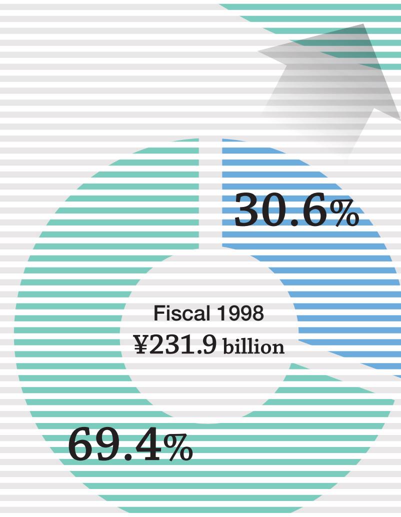
62.2%

Net Sales
(Fiscal years)



Net Sales of Main Products, Others
(Fiscal years)

(Billions of yen)	2010
OTC drugs, etc.	**152.1**
Lipovitan series	71.1
Pabron series	25.7
RiUP series	14.9
Asia OTC	4.7
FOSHU*, etc.	**12.5**
Livita series	3.6
Overseas drinks	6.3
Others	**2.6**



* FOSHU: Foods for Specified Health Use

Sales Composition

Fiscal 2010

¥268.6 billion

37.8%

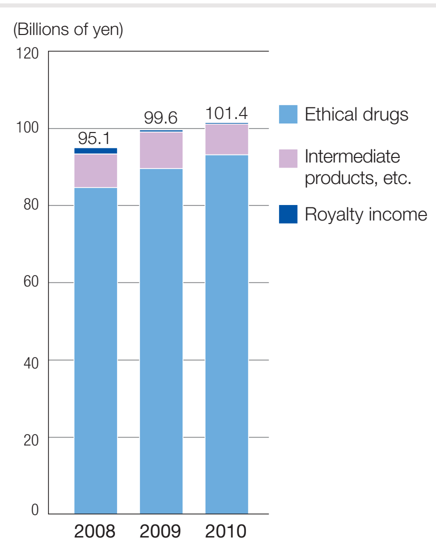
Prescription Pharmaceutical

Operation Group

The Prescription Pharmaceutical Operation Group is aiming for the leading position in its two mainstay businesses. At the same time, the Prescription Pharmaceutical Operation Group is accelerating the development of new drugs that will support the future growth of Taisho Pharmaceutical.

Net Sales

(Fiscal years)



Net Sales of Main Products, Others

(Fiscal years)

(Billions of yen)	2010
Ethical drugs	93.2
Clarith	22.9
ZOSYN	14.8
Palux	10.2
Geninax	4.5
OZEX	4.1
Intermediate products, etc.	7.9
Royalty income	0.3

Self-Medication
Operation Group

Our Current Status and Issues in the OTC Drug Market

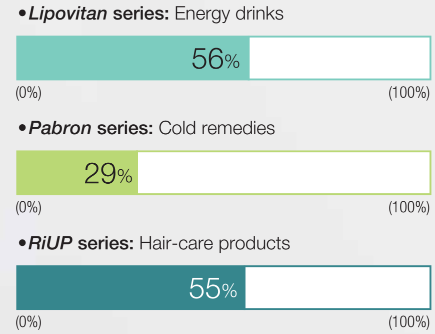
In fiscal 2010, ended March 31, 2011, the scale of the Japanese OTC drug market contracted 3% from fiscal 2009 to ¥1,165.1 billion. In June 2009, the market saw the implementation of a new OTC drug retailing system. Under this system, OTC drugs are classified into three categories depending on their safety level, and pharmacists and registered retail persons are required to provide appropriate information on every OTC drug they sell prior to customer purchase. This system had a positive impact on sales of certain Rx-to-OTC drugs, which often contain the same active ingredients as their ethical counterparts. However, the launch of the system has not contributed to the expansion of the overall OTC drug market in Japan.

By OTC category, Category 1 medicines—supposedly, the core driver of the self-medication market—are showing stagnant growth. This is attributable to the confusion caused at the points of sale by the implementation of the new retailing system and to the shortage of pharmacists, which has resulted in a decline in the number of drug stores handling Category 1 medicines. In addition, pharmaceutical companies are experiencing difficulties in obtaining approvals for marketing Rx-to-OTC drugs. On the other hand, Category 2 and Category 3 medicines, which collectively command the majority of the market, are locked in severe price competition, which has led to the contraction of the overall OTC drug market and the deterioration of pharmaceutical companies' profitability.

In such an unfavorable environment, Taisho Pharmaceutical is accelerating R&D, sales and marketing activities for OTC drugs, for example, expanding its lineup of Category 1 medicines to better meet the ever-diversifying needs of consumers. These activities are aimed at spreading self-medication among Japanese people, an initiative expected to help reduce national healthcare expenditure, which

Principal Category 1 Medicines

Market Shares of Taisho's Main Brands (Fiscal 2010)



Source: Taisho's estimates based on INTAGE SDI data on a selling price basis

continues to rise in connection with Japan's aging society.

Meeting Fiscal 2010 Performance Targets under Adversity

In the reporting term, sales of Category 1 medicines in the Japanese OTC drug market decreased 1% year on year and constituted 4.2% of this market on a selling price basis. In contrast, Taisho Pharmaceutical's Category 1 medicines saw a 13.0% year-on-year increase in sales, raising this category's share of total drug sales to 21.4%. This positive result reflects a significant contribution made by robust sales of the *RiUP X5* hair regrowth treatment. Overall, sales in the Self-Medication Operation Group grew 5.3% from fiscal 2009, underpinned by the segment's vigorous marketing activities and increased demand for products marketed under the Company's three major brands, namely, the *Lipovitan* series of energy drinks, the *Pabron* series of cold remedies and the *RiUP* series of hair regrowth treatments.

Strategies for Our Three Major Brands

Our three top brands account for approximately 70% of the sales recorded by the Self-Medication Operation Group. We have continued to strengthen our products under these brands.

Our *Lipovitan* and other series of energy drinks make up approximately 50% of sales in the Self-Medication Operation Group. Amid ever-intensifying price competition in the energy drink market, the Company has continued to expand its lineup by tailoring its products, such as *Lipovitan Fine*, to meet the low-calorie preferences of many consumers. At the same time, we have worked to broaden our customer base by stepping up sales of single-serve products through convenience stores and launching three-bottle packs. Also, despite the still limited scale of sales, energy drinks targeting female customers, such as the *ALFE* series, are gaining market presence, boosting the Company's expectations of future success.

In addition, having marked its 50th anniversary of market launch in fiscal 2010, the *NARON* series of fever and pain relievers—the next-largest brand after our three major brands—enjoyed healthy sales growth. Taisho Pharmaceutical will continue to enhance the three major brands while fostering its fourth and fifth major brands.

Foods for Specified Health Use (FOSHU) and Mail-Order and Direct-Sales Services

Sales of the *Livita* series in the FOSHU and other products business expanded 15.8% from fiscal 2009. The growth of the *Livita* brand to date reflects the Company's efforts to nurture the brand from the medium- and long-term perspectives by continuously enhancing the lineup of products that help prevent lifestyle-related diseases.

Self-Medication
Operation Group

Taisho Pharmaceutical will continue to leverage the extensive expertise that it has nurtured through pharmaceutical businesses and maintain its focus on product development based on scientific evidence.

Similarly, in our mail-order and direct-sales services, we will promote products that reflect more strategic customer targeting and implement more effective sales models, thereby steadily boosting sales.

Our Future OTC Drug Strategies

Taisho Pharmaceutical believes that the additional expansion of the Japanese OTC drug market will require all parties involved—including the government, pharmaceutical manufacturers and retailers such as drugstores and pharmacies—to cooperate with each other in support of a long-term vision. In line with this belief, the Company is redesigning its marketing activities to realize greater consumer satisfaction than before. At the same time, as a leading Japanese OTC drug manufacturer, we are proactively providing detailed information on our products and making proposals to retailers regarding the arrangement of product displays that more effectively appeal to consumers and encourage purchases.

Japan continues to see increases in the number of patients and potential patients of lifestyle-related diseases, such as diabetes and high blood pressure. Both to promote the health of people across Japan and reduce the country's national healthcare expenditure, calls are heightening for the introduction of OTC drugs that

Mainstay Products

Livita series

New ZENA F-II

Lipovitan series

effectively prevent these diseases or improve conditions before symptoms develop.

In 2009, Taisho Pharmaceutical entered into a sales contract with Mochida Pharmaceutical Co., Ltd. for the Rx-to-OTC switch drug *Epadel* for the treatment of hyperlipidemia and arteriosclerosis obliterans. As of August 2011, *Epadel* is undergoing examination processes before it is approved of for manufacturing and marketing. We are awaiting manufacturing approval for *Epadel*, which will be Japan's first Rx-to-OTC drug indicated for the treatment of lifestyle-related diseases.

Self-Medication Operation Group Accelerating Overseas Business

Since 1963, Taisho Pharmaceutical has marketed energy drinks overseas. Today, the Company sells its energy drinks in 16 countries worldwide, centered on Asia.

In 2009, the Company made a full-scale entry into the OTC drug business overseas, acquiring the Asian OTC drug business of U.S.-based Bristol-Myers Squibb Company (BMS) in October of that year and establishing Taisho Pharmaceutical Singapore Private Limited as a regional headquarters to control our OTC drug business in Southeast Asia. Leveraging the brand power BMS has long nurtured, Taisho Pharmaceutical is currently operating a stable and profitable business in the region. More recently, in August 2011, the Company fully acquired Hoepharma Holdings Sdn. Bhd. (HOE). HOE is the leading Malaysian pharmaceutical company, boasting a competitive edge in the area of ethical drugs for dermatological use. The company also boasts an extensive domestic and overseas sales network, covering

Antipyretic analgesic: ***Tempra***

Anti-inflammatory analgesic for external use: ***Counterpain***

approximately 40 countries worldwide. Through this new subsidiary, we aim to further expand our overseas operations.

Taking advantage of these assets—specifically, its powerful products and Group company capabilities—the Taisho Pharmaceutical Group is working to expand in the booming Southeast Asian market.

RiUP series

Gastrointestinal treatment series

Pabron series

NARON ACE R

VICKS Medicated Drops

Prescription Pharmaceutical
Operation Group

Segment Sales Breaks the ¥100 Billion Mark for the First Time

Despite an average 6.5% real decline in NHI drug prices, the Japanese prescription pharmaceutical market expanded 1.6% year on year in fiscal 2010. The market for antibacterial agents—the core market of Taisho Pharmaceutical—remained stagnant, shrinking 2.5% year on year. Within this market, overall sales of oral formulations decreased 0.6% year on year to approximately ¥230 billion, while those of injectable formulations fell 5.0% to ¥160 billion. These decreases reflected the accelerated implementation of measures to reduce national healthcare expenditures, which has impacted injectable far more than oral formulations due to the promotion of generic drugs.

Despite the unfavorable operating environment, Taisho Toyama Pharmaceutical Co., Ltd (Taisho Toyama) recorded a 4.0% increase in net sales compared with fiscal 2009 to ¥89.8 billion, breaking its sales record for the second fiscal year in a row. In turn, this result propelled segment sales for Taisho Pharmaceutical's Prescription Pharmaceutical Operation Group over the ¥100 billion level for the first time.

Further Solidifying Our Leading Position in the Antibacterial Agent Market

Taisho Toyama has climbed to the top of the market for systemic antibacterial agents, which are classified as Code J01 drugs under the Anatomical Therapeutic Chemical Classification System, and is gradually increasing this lead on its competitors. By product, although sales of *Clarith* fell 1.6% due to an NHI drug price revision, this flagship macrolide antibiotic agent saw an increase in sales volume. Sales of *ZOSYN*, a penicillin-derivative and β-lactamase

Inflammatory and Immunologic Disease Field

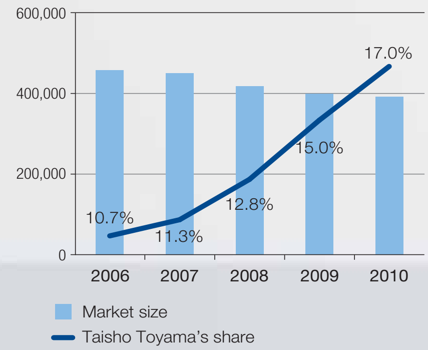
Palux

Lorcam

EDIROL

Domestic Market* for Antibacterial Products **(Fiscal year) (On an NHI price basis)**

(Millions of Yen)



* Systemic antibacterial agent (J01) market by sales company

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Source: JPM April, 2006-March, 2011 Reprinted with permission. Market is defined by Taisho Toyama.

inhibitor combination antibiotic agent released in October 2008, grew 37.6% year on year. Sales of *OZEX*, a new quinolone antibacterial agent, along with *OZEX* fine granules for pediatric use, which the Company added to the lineup in January 2010, jumped 46.5% year on year. These favorable results are testimony to the effectiveness of Taisho Toyama's persistent sales activities—including the provision of information and study sessions for medical professionals—aimed at both strengthening life cycle management for Taisho Toyama's existing products and promoting the growth of new products this company has released.

Looking to the future, with the aim of consistently fulfilling its responsibility as the leading company in the infectious disease field, Taisho Toyama will continue to meet needs at the medical front lines by offering products and information that accurately meet the requests of medical professionals.

Bolstering the Potential of Our Operations in the Inflammatory and Immunologic Disease Field

During the period under review, Taisho Toyama made a major business

Main Products in Our Principal Strategic Fields

Category	Product name	Description/Application
Infectious Disease Field	*Clarith*	Macrolide antibiotic agent
	ZOSYN	Penicillin-derivative and β-lactamase inhibitor combination antibiotic agent
	Geninax	Quinolone antibacterial agent
	PENTCILLIN	Synthetic penicillin antibiotic agent
	OZEX	New quinolone antibacterial agent
	TOMIRON	Cephem antibiotic agent
Inflammatory and Immunologic Disease Field	*Palux*	Peripheral vasodilator
	Lorcam	Nonsteroidal anti-inflammatory/analgesic drug (NSAID)
	EDIROL	Active vitamin D_3 agent for the treatment of osteoporosis

Prescription Pharmaceutical
Operation Group

advance in the strategic field of inflammatory and immunologic diseases, releasing the osteoporosis agent (an active vitamin D_3 agent) *EDIROL* in April 2011. It is estimated that Japan has approximately 12 million people suffering from osteoporosis; however, only about 20% of these people are receiving appropriate treatment. Showing greater efficacy in prevention of fractures compared with conventional active vitamin D_3 agents, *EDIROL* is the first Japanese drug in 22 years with a specific indication for and efficacy with regard to osteoporosis.

Although Taisho Toyama has established a strong sales foundation in the inflammatory and immunologic disease field, for some time we have been waiting for the launch of a powerful new product that will enable Taisho Toyama to develop operations in this field into its second mainstay business. So, while having advanced new drug discovery, Taisho Pharmaceutical has aggressively pursued the launch of new drugs since 2004 with careful consideration given to the list of new drugs being developed by competitors in the orthopedic, bone and joint disease fields. These activities bore fruit, allowing us to launch a series of new drugs and effectively establish a lineup of products that will underpin our future expansion in the inflammatory and immunologic disease field. At present, Taisho Pharmaceutical is undertaking Phase 2/3 clinical trials for CT-064, another osteoporosis treatment. Once we receive approval for and launch CT-064, we aim to grow our operations for this new drug along with those for *EDIROL*, thereby further solidifying our business base in the inflammatory and immunologic disease field.

Nurturing Our Third and Fourth Mainstay Operations in the Metabolic and CNS Fields

Taisho Pharmaceutical is working to establish third and fourth mainstay businesses in the metabolic disease field, which includes diabetes, and the central nervous system (CNS) field. The expansion of operations in these fields will help build the momentum of our business growth.

In the metabolic disease field, Taisho Pharmaceutical is currently advancing the in-house development of the diabetes drug TS-071. TS-071 is a novel sodium-glucose cotransporter 2 (SGLT2) inhibitor, and it has drawn significant attention industrywide. Competition for the realization of similar drugs has intensified across the industry. By aggressively allocating its management resources to TS-071 development, Taisho Pharmaceutical is working to launch this promising drug ahead of its competitors.

Meanwhile, the CNS field presents a number of unmet medical needs. However, it has been long considered difficult to undertake advanced development in Japan of drugs in this field due to low success rates and difficulties with regard to clinical trial environments. To overcome such obstacles and effectively promote clinical trials of psychiatric treatments, Taisho Pharmaceutical is striving to establish a development infrastructure by encouraging cooperation between the Research Center and development divisions. We aim to construct a framework to facilitate development activities that incorporate information acquired both in Japan and overseas. As psychiatric treatments are, in general, developed over relatively long time frames, we will undertake related R&D projects in a steady manner.

Effectively Integrating Research, Development and Sales Operations

We will achieve our targets only if the Prescription Pharmaceutical Operation Group steers the operations of its research, development and sales divisions in a single direction. Therefore, the Company will promote the effective integration of these three divisions.

With regard to this integration, the Company has already reorganized its structure so that it can promote development

Development Pipeline (As of July 29, 2011)

Stage	Name	Formulation	Indication	In Development with	Originator	Remarks
Phase 2/3	CT-064*	Injection	Osteoporosis	Chugai Pharmaceutical	Roche	Additional indication
Phase 2	TT-063	Topical	Osteoarthritis, scapulohumeral periarthritis, myalgia and other conditions	TOKUHON	TOKUHON	
	TS-071	Oral	Type 1 and 2 diabetes	In-house	Taisho	
	CT-064*	Oral	Osteoporosis	Chugai Pharmaceutical	Roche	
	NT-702	Oral	Asthma	Nissan Chemical	Nissan Chemical	
			Intermittent claudication caused by ASO**			
	Palux	Injection	Intermittent claudication caused by SCS***	In-house	Taisho/ Mitsubishi Tanabe	Additional indication

* Chugai Pharmaceutical development code: RG484
** ASO: Arteriosclerosis obliterans
*** SCS: Spinal canal stenosis

operations in light of progress made in research projects and thus ensure the efficient coordination of these two types of operations.

In addition, Taisho Pharmaceutical is currently implementing initiatives aimed at strengthening the collaboration framework linking its research headquarters and development headquarters. This will, in turn, allow accelerated R&D aimed at creating new drugs in the metabolic and CNS fields.

As for the integration of its development and sales operations, Taisho Pharmaceutical is accelerating joint projects with third parties to develop several new drugs in the inflammatory and immunologic disease field—one of Taisho Toyama's areas of expertise. In this strategic field, while stepping up sales activities aimed at quickly enhancing the market recognition of *EDIROL*, we are reinforcing the drug's market status by continuing with clinical trials even though it has already been launched. At the same time, we are promoting collaboration among our research, development and sales divisions in areas that will sustain sales and extend the life cycles of our existing products.

Taisho Pharmaceutical has attained an industry-leading position in the infectious disease field. Through Taisho Toyama, the Company has reinforced its competitiveness in the inflammatory and immunologic disease field. Augmenting our activities in fields where we already boast an advantage, we will launch new products and establish our third and fourth mainstay businesses in the metabolic and CNS fields through the initiatives outlined here. To this end, the Taisho Pharmaceutical Group is strategically coordinating its R&D and sales and marketing activities.

Corporate Governance

Basic Approach

The corporate governance structure of Taisho Pharmaceutical reflects the Company's fundamental policy of maintaining an effective framework that clearly separates management supervision and execution functions, facilitates efficient management decision making and enables the appropriate monitoring of business execution. Also, the Company has adopted an executive officer system and a head office system to clarify responsibilities for business operations. Furthermore, positioning close collaboration among its Board of Directors, corporate auditors and the Board of Corporate Auditors as the foundation of business management, the Company maintains various frameworks to ensure appropriate business activities.

Corporate Governance Structure

Board of Directors and Executive Office System

Taisho Pharmaceutical's Board of Directors meets, in principle, once a month and comprised 11 directors, including 2 outside directors, as of June 29, 2011. The Board of Directors makes decisions on important matters related to business execution and Groupwide management and monitors operations undertaken based on their decisions. During the fiscal year ended March 31, 2011, the Board of Directors held 16 meetings. In addition, the Company has adopted an executive officer system, under which it currently has seven executive officers. Also, the Management Advisory Committee, which includes the Company's representative directors as members and serves as an advisory body to the Board of Directors, meets on an as-required basis to further facilitate effective and efficient management decision making.

Corporate Auditors and Board of Corporate Auditors

Taisho Pharmaceutical has adopted a corporate auditor system. As of June 29, 2011, the Board of Corporate Auditors consisted of four corporate auditors, two of whom are external appointees. The Board of Corporate Auditors, in principle, meets at least four times a year, at which meetings corporate auditors present reports on the status of their audits and receive reports from the accounting auditor on accounting audits. Corporate auditors monitor the Company's business conditions and financial status, and compile reports and make suggestions to representative directors and the Board of Directors in a timely and appropriate manner. During fiscal 2010, the Board of Corporate Auditors met eight times.

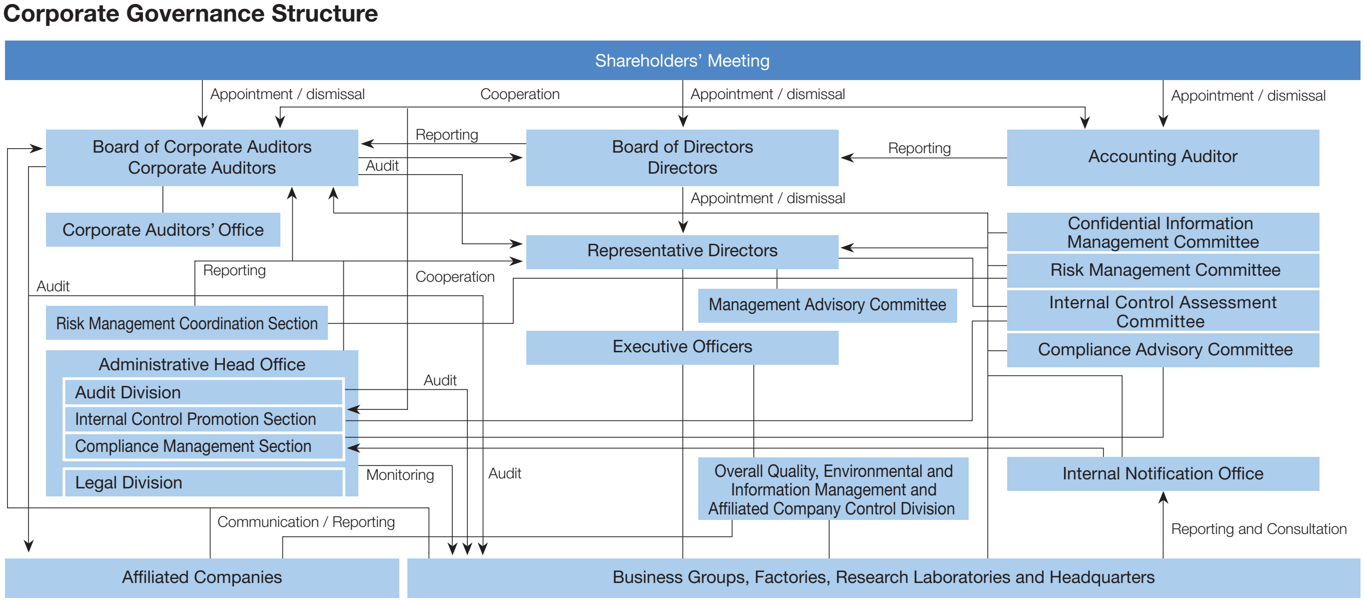
Internal Control

Internal Control System Development

Pursuant to the implementation of Japan's Companies Act, the Company's Board of Directors approved the Fundamental Internal Control Policies at a meeting held in May 2006. In April 2008 and April 2010, the Board of Directors approved partial revisions to the fundamental policies with due consideration given to advances the Company has made in developing internal control systems.

To date, the Company has also made progress in developing, reviewing and amending various in-house rules and regulations that serve as the groundwork for internal control. We are working to ensure that these rules and regulations are being properly implemented and followed throughout the Group. Also, the Company has established a structure to monitor the status of business operations and ensure that these operations are promoted appropriately and efficiently in line with these rules and regulations. This structure is underpinned by the Administrative Head Office,

Corporate Governance Structure



which consists of the Audit Division, the Compliance Management Section, the Internal Control Promotion Section and the Legal Division.

Internal Audits and Audits by Corporate Auditors

The Audit Division maintains its independence from the Company's business execution and, as of June 29, 2011, consisted of 17 staff members. The Audit Division formulates a risk-specific audit plan every year, based on which it performs internal audits in accordance with the Company's internal auditing regulations. On a Groupwide scale that includes subsidiaries and business bases, audits by corporate auditors are performed in line with a corporate auditors' audit plan based on an annual audit policy. The Company's directors provide corporate auditors with necessary assistance and support through these audits. Furthermore, corporate auditors accompany the accounting auditor on audits of the Company's subsidiaries and business bases to observe audits.

Compliance

As a company active in the life science field, Taisho Pharmaceutical has formulated the Declaration of Corporate Conduct and Our Code of Conduct, both of which are based on its management philosophy. The Company is working to disseminate and instill the declaration and code Companywide to promote practical compliance activities. The Company has also formulated Compliance Regulations to clearly define the systems and processes for promoting compliance activities. At the same time, the Company has formulated Division Action Guidelines specific to each business unit in order to allow individual Taisho Pharmaceutical employees to familiarize themselves with and better understand Our Code of Conduct. The Company is striving to ensure that its employees strictly observe the Division Action Guidelines in the execution of their respective duties.

Taisho Pharmaceutical has appointed to the position of Compliance Officer an individual currently holding the concurrent posts of representative director and executive vice president and has established the Compliance Management Section within the Administrative Head Office. Through the Compliance Management Section, the Company has put general managers of individual business units in charge of raising the awareness of compliance in the workplace. At the same time, compliance promotion staff have been appointed at each business unit. Compliance promotion staff serve as key persons to identify compliance-related issues at an early stage. Furthermore, the Company has established the Compliance Advisory Committee, which operates independently from senior management, and compliance hotlines for internal or external whistle blowing.

Risk Management System

Taisho Pharmaceutical has formulated Risk Management Guidelines to effectively manage risks that can materialize in the course of its operations. In accordance with these guidelines, the Risk Management Committee has been established as the central body to manage risks on a Companywide scale. In particular, for risks relating to its management strategies, the Company maintains a framework that enables its senior management to respond to varying situations in a flexible and agile manner.

Meanwhile, Taisho Pharmaceutical has established the Risk Management Coordination Section, which is responsible for the maintenance of the Risk Management Guidelines and serves as the secretariat to the Risk Management Committee. Furthermore, the Risk Management Coordination Section monitors overall risk management activities conducted by each business unit and provides advice and guidance for these activities. Through activities implemented on a Companywide scale, the Risk Management Coordination Section is working to enhance the Company's risk management system.

Corporate Social Responsibility

Quality Assurance

Taisho Pharmaceutical has established a Quality Assurance Head Office (QA Head Office) in an effort to promote quality assurance at each stage of its business activities, from R&D through manufacture, sales and post-marketing operations. In addition to our compliance with laws and regulations, the QA Head Office's key role is to scientifically assure consumers that our products are safe. To that end, the QA Head Office is responsible for maintaining quality assurance and safety management following manufacture and sales, auditing clinical trials and conducting quality assurance activities for test results at the R&D stage. Besides these responsibilities, the QA Head Office is in charge of formulating the Company's fundamental quality assurance principles and policies as well as of planning and promoting the development and reinforcement of a Companywide quality assurance system.

Social Contribution and Environmental Preservation Activities

As an integrated pharmaceutical manufacturer, Taisho Pharmaceutical is working actively to contribute to the better quality of life for people everywhere. At the same time, in addition to recognizing the tackling of environmental issues as one of its important management priorities, the Company has established the Uehara Memorial Foundation as a way of encouraging and supporting research in a variety of life-science-related fields.

Financial Section

11-Year Financial Summary

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
(Fiscal Years)

	Millions of yen			
	2010	2009	2008	2007
For the year:				
Net sales	**¥ 268,632**	¥ 258,442	¥ 256,214	¥ 249,656
Cost of sales	**96,395**	91,739	86,752	85,168
Gross profit	**172,237**	166,703	169,462	164,488
Selling, general and administrative expenses	**128,155**	132,017	131,527	127,536
Operating income	**44,082**	34,686	37,936	36,952
Net income	**34,893**	19,485	8,815	25,004
At year-end:				
Total liabilities and net assets	**¥ 618,434**	¥ 606,443	¥ 591,569	¥ 627,224
Current assets	**233,171**	215,687	215,873	249,463
Current liabilities	**59,860**	55,680	54,130	55,643
Working capital	**173,311**	160,007	161,743	193,820
Net assets*	**535,231**	527,761	514,511	548,650
R&D expenditures	**23,678**	28,118	27,524	24,725
R&D expenditures as a percentage of net sales (%)	**8.8**	10.9%	10.7%	9.9
Total capital expenditures**	**8,418**	21,526	6,330	6,278
Net cash provided by operating activities	**46,494**	39,475	35,783	50,746
Net cash used in (provided by) investing activities	**(793)**	11,245	(12,531)	(35,064)
Net cash used in financing activities	**(18,378)**	(18,838)	(29,430)	(11,431)
Free cash flows	**45,701**	50,720	23,252	15,682
Per share data:				
Shareholders' equity (yen)	**¥1,902.74**	¥1,816.68	¥1,745.96	¥1,816.25
Net income (yen)	**124.90**	67.98	30.01	84.01
Ratio data:				
Asset turnover (times)	**0.4**	0.4	0.4	0.4
Tangible fixed assets turnover (times)	**3.0**	2.8	2.8	2.6
Return on equity—ROE (%)	**6.7%**	3.8%	1.7%	4.6%
Return on assets—ROA (%)	**5.7%**	3.3%	1.4%	4.0%

* The data previously presented as “Shareholders’ equity” are shown as “Net assets” based on the new accounting standard for presentation of net assets applied from the fiscal year ended March 31, 2007. The data for March 31, 2006 have also been reclassified to reflect this change.
** Total capital expenditures related to production and research.

Millions of yen						
2006	2005	2004	2003	2002	2001	2000
¥ 242,071	¥ 271,408	¥ 279,437	¥ 286,434	¥ 274,077	¥ 271,397	¥ 274,396
82,220	86,687	84,855	85,006	73,346	70,826	70,540
159,851	184,721	194,582	201,428	200,731	200,571	203,856
137,494	138,325	139,884	143,728	146,337	139,870	137,265
22,357	46,396	54,698	57,700	54,394	60,701	66,591
15,421	35,884	35,489	40,910	35,392	37,361	31,269
¥ 631,929	¥ 664,431	¥ 613,803	¥ 601,956	¥ 577,707	¥ 590,036	¥ 573,612
240,417	271,157	273,144	254,715	247,589	251,793	245,078
53,910	57,725	56,345	62,019	46,347	60,156	64,257
186,507	213,432	216,800	192,696	201,242	191,637	180,821
547,486	569,540	517,634	500,761	485,717	486,883	467,601
28,520	23,072	23,221	24,171	29,526	32,212	33,401
11.8	8.5	8.3	8.4	10.8	11.9	12.2
8,066	13,397	7,074	8,829	8,957	24,996	15,602
29,638	38,487	43,179	57,529	53,420	44,654	36,610
(22,812)	(17,364)	(52,499)	27,254	10,419	(30,455)	(27,906)
(31,085)	(6,888)	(19,382)	(39,651)	(27,613)	(11,480)	(16,901)
6,826	21,123	(9,320)	84,783	63,839	14,199	8,704
¥1,832.24	¥1,840.63	¥1,678.78	¥1,597.78	¥1,474.65	¥1,434.51	¥1,371.99
50.54	116.18	114.15	127.87	105.81	109.66	91.41
0.4	0.4	0.5	0.5	0.5	0.5	0.5
2.5	2.8	2.8	2.8	2.6	2.7	2.9
2.8%	6.6%	7.0%	8.3%	7.3%	7.8%	6.9%
2.4%	5.6%	5.8%	6.9%	6.1%	6.4%	5.7%

Management's Discussion and Analysis

Company Overview

The Taisho Pharmaceutical Group is made up of Taisho Pharmaceutical Co., Ltd. and its 25 subsidiaries and three affiliated companies. We are engaged in activities across two broad operating areas. The Self-Medication Operation Group handles the research, development, manufacture and sale of over-the-counter (OTC) drugs, Foods for Specified Health Use (FOSHU), food products and miscellaneous goods. The Prescription Pharmaceutical Operation Group carries out the research, development, manufacture and sale of prescription pharmaceuticals.

Operating Results

During fiscal 2010, ended March 31, 2011, the Japanese economy showed signs of a pickup in exports and production on the back of a recovery in overseas economies. However, employment conditions remained difficult, including a high unemployment rate, and the outlook of the economy remained unclear. This outlook was clouded further by the occurrence of the Great East Japan Earthquake in March 2011.

The OTC drug market, the Self-Medication Operation Group's main business field, remained weak overall. Although sales of such products as general cold remedies, rhinitis drugs and energy drinks were brisk, sales of cold prevention-related products experienced a sharp drop that was attributable to relative lull in the market following a sharp demand spike for these products in the previous fiscal year due to the outbreak of the new strain of influenza.

The severe business conditions persisted also for the Prescription Pharmaceutical Operation Group as a result of the steady penetration of various government measures designed to curb healthcare costs and the huge impact of a revision of National Health Insurance (NHI) drug prices that took effect in April 2010.

Under these circumstances, the Self-Medication Operation Group focused on the provision of information on products and on strengthening in-store sales promotions. Also, it actively launched new products in the growing field of lifestyle-related diseases while working to invigorate the market. Meanwhile, the Prescription Pharmaceutical Operation Group dedicated itself to the ongoing discovery of original compounds and the acceleration of development efforts while reinforcing marketing capabilities by focusing on the provision of information.

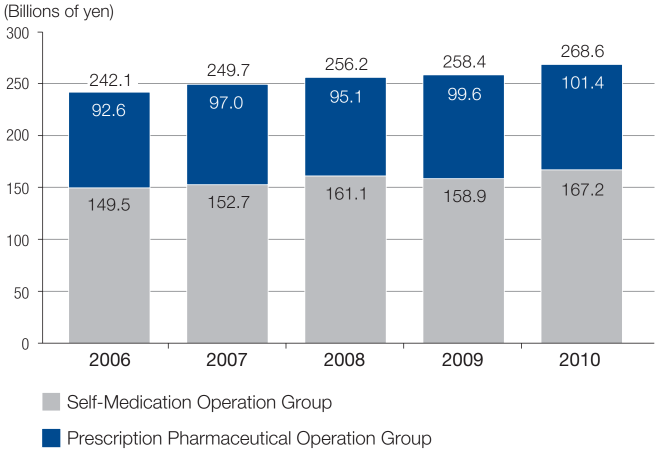
As a result, consolidated net sales rose ¥10,190 million, or 3.9%, year on year to ¥268,632 million.

In line with the increase in net sales, gross profit climbed ¥5,534 million, or 3.3%, to ¥172,237 million.

Selling, general and administrative expenses decreased ¥3,862 million, or 2.9%, to ¥128,155 million.

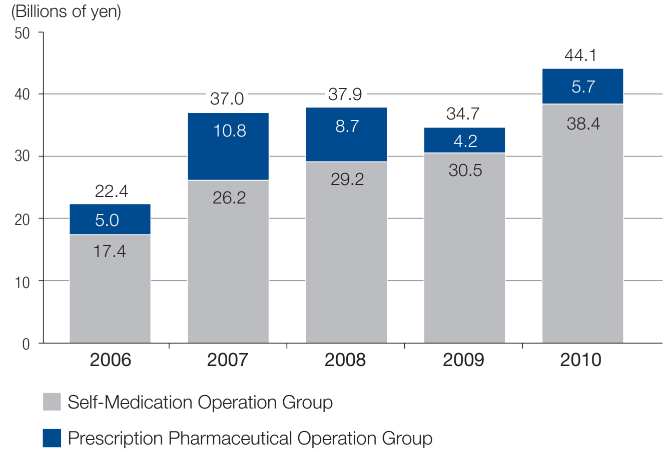
Sales Composition by Segment (Fiscal years)

(Billions of yen)



Operating Income Composition by Segment (Fiscal years)

(Billions of yen)



This decrease reflected the Company's thorough cost management efforts as well as the absence of certain items accounted for during fiscal 2009, namely, the payment of a major milestone fee in connection with the in-licensing of new product candidates and an increase in advertisement costs related to the launch of new products. Consequently, operating income soared ¥9,396 million, or 27.1%, to ¥44,082 million. The operating income margin improved 3.0 percentage points to 16.4%.

Non-operating income expanded ¥3,654 million to ¥10,449 million, owing mainly to ¥3,699 million in equity in earnings of affiliated companies, a turnaround from ¥3,877 million in equity in losses of affiliated companies in fiscal 2009. Non-operating expenses declined ¥4,356 million to ¥454 million. Extraordinary income edged up ¥75 million to ¥90 million. At the same time, extraordinary loss increased ¥265 million to ¥1,161 million due to the posting of ¥1,074 million in losses related to disaster attributable to the March 11, 2011 Great East Japan Earthquake.

Reflecting the aforementioned factors, income before income taxes and minority interests jumped ¥17,216 million, or 48.1%, to ¥53,007 million, and net income surged ¥15,408 million, or 79.1%, to ¥34,893 million. Based on these figures, net income per share increased ¥56.92 to ¥124.90, and return on equity improved 2.9 percentage points to 6.7%.

Segment Information

Self-Medication Operation Group

Segment net sales rose ¥8,344 million, or 5.3%, to ¥167,195 million.

With regard to the *Lipovitan* series of energy drinks, sales of mainstay *Lipovitan D* were down 1.1%. However, sales of *Lipovitan Fine*, *Lipovitan Half* and *Lipovitan FB*, all of which are designed to appeal to consumers who prefer low-calorie drinks, expanded steadily, partly supported by a heat wave in summer 2010. Accordingly, *Lipovitan* series sales increased 0.4% year on year to ¥71.1 billion.

Sales of the *Pabron* series of cold remedies fell sharply in the first half of fiscal 2010 in reaction to the sharp demand spike for cold prevention-related products caused by the outbreak of the new strain of influenza during fiscal 2009. In the second half, however, mainstay general cold remedies performed robustly, and sales of rhinitis drugs showed strong growth in the fourth quarter owing to high quantities of airborne pollens in early spring. As a result,

Net Sales of Main Products (Fiscal years)

	Billions of yen		
	2010	2009	2008
OTC drugs, etc.	**152.1**	144.3	140.1
Lipovitan series	**71.1**	70.8	74.8
Lipovitan D	**48.9**	49.4	52.8
Others	**22.2**	21.4	22.0
Pabron series	**25.7**	24.9	25.4
RiUP series	**14.9**	12.7	11.4
NARON series	**4.6**	4.4	4.6
ZENA series	**3.3**	3.5	3.3
Gastrointestinal treatment series	**4.2**	4.3	4.3
Colac series	**3.9**	3.9	3.9
FOSHU, etc.	**12.5**	10.4	9.9
Livita series	**3.6**	3.1	2.6

overall *Pabron* series sales increased 3.1% to ¥25.7 billion.

Sales of the *RiUP* series of hair regrowth treatments remained solid, growing 17.2% to ¥14.9 billion. A contributing factor behind this was the continued strong sales of *RiUP X5* launched in fiscal 2009, despite general stagnation in the Category 1 medicines market. Sales of the *NARON* series of fever and pain relievers, which marked the 50th anniversary since the brand's launch, expanded 6.0% to ¥4.6 billion. Regarding other brands, however, sales of the *ZENA* series of energy drinks declined 3.6% to ¥3.3 billion, sales of the Gastrointestinal treatment series edged down 1.0% to ¥4.2 billion, and sales of the *Colac* series of constipation-related treatments also retreated, edging down 1.5% to ¥3.9 billion.

Sales of the Foods for Specified Health Use (FOSHU), food and other products grew, with the *Livita* series expanding 15.8% to ¥3.6 billion thanks to the Company's effective promotion of *Glucocare Powder Stick* and other powder products.

Prescription Pharmaceutical Operation Group

Segment net sales increased ¥1,846 million, or 1.9%, to ¥101,437 million.

Sales of *ZOSYN*, a penicillin-derivative and β-lactamase inhibitor combination antibiotic agent released in October 2008, grew 37.6% to ¥14.8 billion, and sales of *OZEX*, a new quinolone antibacterial agent, expanded 46.5% to ¥4.1 billion, thanks to contributions from *OZEX* fine granules for pediatric use released in January 2010.

On the other hand, although sales of *Clarith* fell 1.6% to ¥22.9 billion due to the negative impact of the NHI drug price revisions in April 2010, this flagship macrolide antibiotic agent saw an increase in sales volume. Also, although sales of *Palux* slipped 5.5% to ¥10.2 billion due to the NHI drug price revision, this peripheral vasodilator experienced an increase in sales volume. Sales of *Geninax*, a quinolone antibacterial agent, sank 7.3% to ¥4.5 billion. Sales of *Lorcam*, a nonsteroidal anti-inflammatory/analgesic drug, slid 4.6% to ¥3.6 billion. Sales of *PENTCILLIN*, an injectable synthetic penicillin agent, dropped 12.7% to ¥3.8 billion. Sales of *TOMIRON*, a cephem antibiotic agent, declined 1.8% to ¥2.5 billion.

Sales of other products, such as Intermediate products for medical use, decreased 16.3% to ¥7,919 million.

Royalty income plunged 33.7% to ¥345 million.

Net Sales of Main Products (Fiscal years)

	Billions of yen		
Product name	**2010**	2009	2008
Clarith	**22.9**	23.3	24.0
*ZOSYN/TAZOCIN**	**14.8**	10.7	4.0
Palux	**10.2**	10.8	11.2
Geninax	**4.5**	4.8	3.7
OZEX	**4.1**	2.8	3.0
PENTCILLIN	**3.8**	4.3	5.5
Lorcam	**3.6**	3.7	4.0
TOMIRON	**2.5**	2.5	3.0

* Figure for the fiscal 2008 represents the sum of *ZOSYN* and *TAZOCIN* sales.

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries (Fiscal years)

	Millions of yen				
	2010	2009	2008	2007	2006
Sales:					
Self-Medication Operation Group:	¥167,195	¥158,851	¥161,142	¥152,678	¥149,486
OTC drugs, etc.	152,089	144,320	148,229	140,072	137,728
Foods for Specified Health Use, etc.	12,535	10,441	9,921	9,826	8,658
Others	2,571	4,090	2,991	2,780	3,100
Prescription Pharmaceutical Operation Group:	101,437	99,591	95,072	96,978	92,585
Ethical drugs	93,172	89,612	84,712	81,969	79,700
Intermediate products, etc.	7,919	9,458	8,748	10,739	11,473
Royalty income	345	520	1,612	4,269	1,412
Segment assets:					
Self-Medication Operation Group	¥249,088	¥215,667	¥189,377	¥210,212	¥198,644
Prescription Pharmaceutical Operation Group	161,223	149,875	151,623	133,260	112,869
Depreciation*:					
Self-Medication Operation Group	¥ 8,936	¥ 8,588	¥ 7,984	¥ 9,045	¥ 9,792
Prescription Pharmaceutical Operation Group	2,789	2,945	3,030	3,572	3,346

*Depreciation includes amortization of long-term prepaid expenses.

Financial Position

Our financial policy calls for maintaining appropriate liquidity, securing sufficient working capital for corporate activities and ensuring sound balance sheets.

As of March 31, 2011, total assets stood at ¥618,434 million, an increase of ¥11,991 million, or 2.0%, from March 31, 2010. Current assets totaled ¥233,171 million, up ¥17,484 million, or 8.1%, year on year, while fixed assets totaled ¥385,264 million, shrinking ¥5,493 million, or 1.4%.

Under current assets, cash and cash equivalents rose ¥27,798 million, or 12.8%, to ¥133,423 million. Under fixed assets, tangible fixed assets declined ¥496 million, or 0.5%, to ¥90,250 million. Intangible assets dropped ¥3,909 million, or 11.4%, to ¥30,387 million, primarily reflecting a decrease in sales rights. Investments and other assets dipped ¥1,088 million, or 0.4%, to ¥264,627 million, with a year-on-year increase of ¥3,293 million, or 7.0%, in investment securities in affiliates being more than offset by a decrease of ¥4,424 million, or 2.2%, in investment securities.

Total liabilities expanded ¥4,522 million, or 5.7%, year on year to ¥83,204 million, reflecting a ¥2,375 million, or 10.5%, increase in notes and accounts payable, trade, and the posting of a ¥1,045 million provision for losses related to disaster in connection with the Great East Japan Earthquake. Current liabilities rose ¥4,180 million, or 7.5%, to ¥59,860 million, while long-term liabilities amounted to ¥23,344 million.

Net assets increased ¥7,470 million, or 1.4%, to ¥535,231 million. A major factor for this increase was the recording of net income totaling ¥34,893 million, which more than compensated for decreases due to such factors as the purchase of treasury stock totaling ¥16,005 million and the payment of dividends totaling ¥7,649 million.

As a result, the equity ratio declined 0.5 of a percentage point from March 31, 2010, to 84.8%. Net assets per share grew ¥85.06 to ¥1,901.74.

Cash Flows

The net increase in cash and cash equivalents as of March 31, 2011 was ¥26,646 million year on year to ¥123,603 million.

Cash Flows from Operating Activities

Net cash provided by operating activities stood at ¥46,494 million, a year-on-year increase of ¥7,019 million, largely due to the posting of ¥53,007 million in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥793 million, a turnaround from ¥11,245 million provided in fiscal 2009. In the year under review, outflows consisted mainly of payments for purchases of tangible fixed assets totaling ¥7,397 million and payments for purchases of investment securities totaling ¥15,941 million.

Cash Flows from Financing Activities

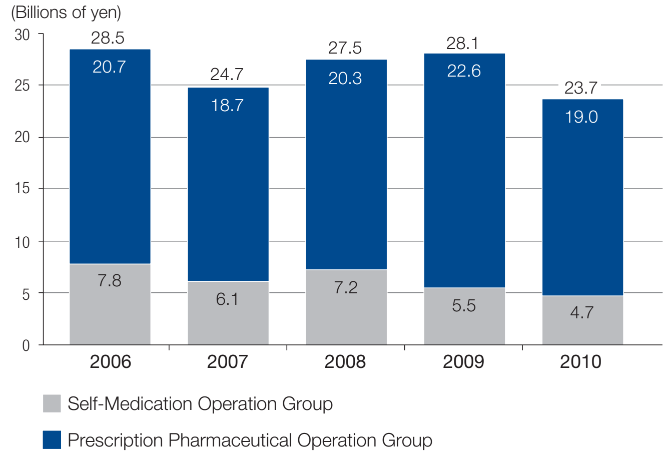
Net cash used in financing activities amounted to ¥18,378 million, a decrease of ¥460 million year on year, and mainly consisted of payments for purchases of treasury stock totaling ¥16,005 million and the payment of cash dividends totaling ¥7,624 million.

Capital Expenditures

As part of ongoing efforts to expand its business operations, the Company undertook capital expenditures totaling ¥8,418 million during fiscal 2010. Principal components included ¥1,951 million used for the construction of a new Osaka Branch building, ¥1,674 million used for purchasing business-use land and ¥643 million used for upgrading research facilities at the Research Center.

There was no material impact on our production capacity following the sale, disposal or loss of fixed assets.

Research and Development Expenses (Fiscal years)



Human Resources

The total number of employees as of March 31, 2011 was 5,622, with the Self-Medication Operation Group accounting for 2,414 employees, the Prescription Pharmaceutical Operation Group accounting for 1,842 employees and 1,366 employees engaged in Companywide operations.

Basic Earnings Distribution Policy

The Company will move into a holding company structure by establishing Taisho Pharmaceutical Holdings Co., Ltd. (hereafter, the “Holding Company”), which will become the wholly owning parent company of the Company, on October 3, 2011 through a sole-share transfer.

The basic policy for deciding cash dividends and the usage of retained earnings by the planned Holding Company has yet to be determined. To date, Taisho Pharmaceutical has adhered to a policy of consistently delivering a high level of dividends over the long term. Also, we have striven to secure retained earnings growth in an effort to fortify our corporate structure. Aimed at strengthening our competitiveness and achieving business expansion, these retained earnings have been used for R&D, capital investment, product in-licensing, capital and business alliances and new business development. In addition, with due consideration given to the funds required

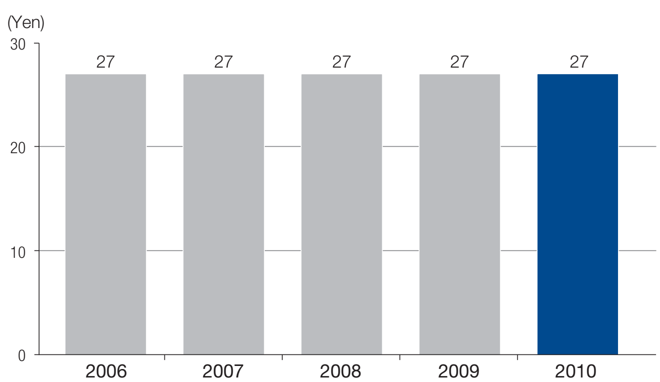
for such investments, we have repurchased treasury stocks in a flexible manner, aiming to improve capital efficiency and implement an agile financial policy.

We have pursued a dividend policy pegged to non-consolidated operating results for each business term. The goal has been to achieve a dividend payout ratio of 30% of net income, excluding extraordinary income/loss.

For the period under review, although both revenues and earnings exceeded initial forecasts, the Company has decided to maintain the previously announced dividend level. Thus, the Company declared an annual cash dividend of ¥27 per share. This decision reflects uncertainties in the Company's business environment and performance attributable to the impact of the Great East Japan Earthquake. The dividend level can be translated into a payout ratio of 24.7%.

Dividends to be paid by the Holding Company shall be determined through the resolution of the Shareholders' Meeting of the Holding Company. However, in order to ensure that the return of profits to shareholders is conducted in a flexible manner, it will be defined in the Holding Company's Articles of Incorporation that the amount of interim dividends (dividends from surplus, as provided by Article 454, Paragraph 5 of the Companies Act of Japan) can be resolved solely at a meeting of the Holding Company's Board of Directors, without the approval of the Shareholders' Meeting.

Dividend Per Share (Fiscal years)



Important Management Issues

Self-Medication Operation Group

In the area of product development, the Company will broaden its product lineup of Category 1 medicines by introducing switch compounds (prescription pharmaceutical compounds developed for the OTC market) and aggressively develop products to meet demand in such new fields as lifestyle-related diseases, metabolic syndrome and products that can lead to more healthy lives. In the area of sales and marketing, the Company will strive to increase the brand value it has built over many years, including the *Lipovitan* series, *Pabron* series, and *RiUP* series while nurturing new brands such as *Livita*. Also, we will focus on further strengthening proposal-oriented sales activities based on our direct-sales system and work to enhance our direct communication with consumers by expanding new channels such as a mail-order system.

Prescription Pharmaceutical Operation Group

The operating environment of the Prescription Pharmaceutical Operation Group has become even more difficult. To successfully win out against the tough competition in this field, the Company will focus its R&D on highly unique new drugs that will succeed in markets worldwide. At the same time, we will work to enhance our drug pipeline by promoting the in-licensing of promising drug candidates and collaborative development through strengthened alliances with both domestic and overseas counterparts.

Our consolidated sales and marketing subsidiary Taisho Toyama Pharmaceutical Co., Ltd. (Taisho Tomaya) aims to strengthen its sales visits and promotional activities and enhance the productivity of its medical representatives (MRs). Furthermore, the subsidiary will fortify its areas of expertise with the aim of solidifying its position as the leader in the field of infectious diseases.

M&A and Overseas Operations

In overseas business activities, we will work to solidify our business base for energy drinks centered on Asia to establish ourselves as a leading name in this market sector. Also, in the OTC drug business, the Company is further strengthening its regional headquarters in Singapore and its manufacturing center in Indonesia. Through these business bases, we have already established firm business foundations in these countries, the Philippines and Thailand.

Moreover, in April 2011, the Company reached an agreement to acquire Hoepharma Holdings Sdn. Bhd. (HOE), a Malaysian drug company, from Goldis Berhad and other shareholders. Going forward, the Company plans to continue expanding its OTC drug business in Southeast Asia.

Fiscal 2011 Outlook

In fiscal 2011, ending March 31, 2012, the Company expects to post net sales of ¥274,000 million, up 2.0% compared with fiscal 2010, operating income of ¥39,500 million, down 10.4%, and net income of ¥28,000 million, down 19.8%. In making the above forecasts for earnings, we have taken into consideration our selling, general and administrative expenses, which are expected to increase due to research and development expenditures and sales promotion costs as R&D projects progress and new products are launched. In addition, we have factored in a likely decline in equity in earnings of affiliated companies. The forecasts for individual business groups are as follows.

Self-Medication Operation Group

Securing stable and sustained profits by focusing on mainstay brands and nurturing relationships with business partners in the potentially profitable field of lifestyle-related diseases, the Company will work toward maintaining its status as the No. 1 brand and developing new brands to follow *Lipovitan*, *Pabron*, and *RiUP*. For fiscal 2011, we forecast net sales of ¥171,300 million for the Self-Medication Operation Group, up 2.5% year on year.

Sales of OTC drugs are expected to increase by 2.0% to ¥155,100 million. Sales targets for the Company's mainstay products are as follows: the *Lipovitan* series up 0.7% to ¥71,600 million; the *Pabron* series up 0.1% to ¥25,700 million; and the *RiUP* series up 2.4% to ¥15,200 million. Plans are also under way to launch a number of new products.

In FOSHU, etc., sales of the *Livita* series are expected to increase 3.6% to ¥3,700 million, reflecting the expansion of core products targeting lifestyle-related diseases, while we project a 3.5% rise in overseas energy drinks sales to ¥6,500 million.

Prescription Pharmaceutical Operation Group

Taisho Toyama will work to bolster its provision of information as well as its marketing strengths in order to solidify its position as the leader in the infectious disease field. For the entire Group, the Company forecasts full-term net sales of ¥102,700 million, up 1.2% compared with fiscal 2010.

Sales targets compared with fiscal 2010 for our mainstay products are as follows: *Clarith* down 4.0% to ¥22,000 million; *Palux* down 2.2% to ¥10,000 million; *Lorcam* down 7.0% to ¥3,300 million; *PENTCILLIN* down 9.4% to ¥3,400 million; and with respect to *ZOSYN* up 9.8% to ¥16,200 million; and *Geninax* up 12.3% to ¥5,000 million. Also, the Company projects sales of ¥3,400 million for osteoporosis agent *EDIROL*, launched in April, 2011.

We expect sales of intermediate products, etc., to fall 0.2% to ¥7,900 million, and royalty income to fall 13.0% to ¥300 million.

Business and Other Risks

Of the potential risks involved in developing our business activities, those deemed to have the greatest likelihood of occurring are highlighted as follows. Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgments as of March 31, 2011.

1. Legal risks and risks related to healthcare policy

Our operations are subject to laws and regulations governing pharmaceutical affairs. A number of different

approval and permission systems exist at each stage of pharmaceutical operations, including development, manufacture, import and distribution. Consequently, there is a risk that any of our products could fail to conform to regulations at one of these stages, or that previously granted approvals could be revoked. Among other risks, depending on trends in healthcare policy, health insurance systems and other changes, we may also face the risk of a decline in pharmaceutical prices.

2. Risks involving pharmaceutical quality, side effects and other issues

We do our utmost to guarantee the reliability and quality of our pharmaceutical and other products. Nevertheless, unanticipated side effects, accidents and other factors could force us to recall or halt the sales of the pharmaceutical and other products affected or incur claims for damage.

3. Risks involving pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is an element of uncertainty inherent in the successful launch of products and businesses.

4. Risks involving intellectual property rights

If we are not properly protected by our intellectual property rights, there is a risk that a third party might use our technology and other intellectual property to undermine our market competitiveness. Similarly, there is the risk that we might encroach on the intellectual property rights of third parties.

5. Risks related to patent expiry

Although we strive to extend product life cycles, sales could be negatively impacted by, for example, the emergence of a generic drug or a switch to OTC drug produced following the expiration of a patent.

6. Risks from lawsuits

We face the possibility of lawsuits in the course of our business activities related to product liability, environmental issues and other matters.

7. Risks from fluctuations in foreign exchange rates

Fluctuations in foreign currency exchange rates could affect royalties denominated in foreign currencies received from outside Japan, commercial transactions and other factors, thus impacting our operating results.

8. Other risks

Due to various events, including sudden earthquakes, tsunamis and other natural disasters and the deterioration of the social order at the locations where we operate, we could suffer major setbacks, such as the destruction of our business sites and infrastructure or the need to downsize or withdraw from businesses. In addition, there are a variety of other risks involved, including those associated with the external procurement of raw materials and a dependency on the licenses of products developed by other companies. Please note, therefore, that the aforementioned risks do not constitute all the risks inherent in the Company's business activities.

Consolidated Balance Sheets

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2010	2011	2011
Current assets:			
Cash and cash equivalents (Notes 8 and 10)	¥ 105,625	¥ 133,423	$ 1,604,602
Notes and accounts receivable, trade (Note 10)	60,380	65,171	783,781
Marketable securities (Notes 8 and 11)	7,599	—	—
Inventories	23,661	23,041	277,099
Deferred income taxes (Note 14)	7,712	8,095	97,354
Other current assets (Note 16)	10,859	3,753	45,133
Allowance for doubtful accounts (Note 10)	(149)	(312)	(3,750)
Total current assets	215,687	233,171	2,804,221
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	129,109	129,760	1,560,557
Machinery and equipment	78,459	79,322	953,964
Land	30,829	32,509	390,965
Construction-in-progress	293	2,397	28,826
Others	33,103	33,504	402,936
Accumulated depreciation (Note 4)	(181,047)	(187,242)	(2,251,861)
Total tangible fixed assets	90,746	90,250	1,085,387
Intangible assets:			
Goodwill	14,238	13,397	161,123
Sales rights	11,252	10,068	121,079
Others	8,806	6,922	83,245
Total intangible assets	34,296	30,387	365,447
Investments and other assets:			
Investment securities (Note 10)	202,815	198,391	2,385,938
Investment securities in affiliates	47,058	50,351	605,547
Long-term prepaid expenses	997	998	12,005
Deferred income taxes (Note 14)	10,131	10,729	129,034
Other assets	4,940	4,356	52,387
Allowance for doubtful accounts	(225)	(199)	(2,390)
Total investments and other assets	265,715	264,627	3,182,522
Total fixed assets	390,757	385,264	4,633,355
Total assets (Note 15)	¥ 606,443	¥ 618,434	$ 7,437,576

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2011
Current liabilities:			
Notes and accounts payable, trade (Note 10)	¥ 22,689	¥ 25,064	$ 301,432
Short-term loans (Note 19)	1,275	235	2,826
Accounts payable	10,229	11,757	141,389
Accrued income taxes (Notes 10 and 14)	7,972	8,019	96,442
Accrued expenses	7,579	8,038	96,672
Provision for sales returns	546	487	5,852
Accrued bonuses to employees	4,433	4,498	54,091
Provision for losses related to disaster	—	1,045	12,562
Other current liabilities	957	718	8,631
Total current liabilities	55,680	59,860	719,898
Long-term liabilities:			
Accrued retirement benefits for employees (Note 13)	16,912	17,260	207,580
Accrued retirement benefits for directors and corporate auditors	1,385	1,465	17,614
Deferred income taxes (Note 14)	529	477	5,735
Other long-term liabilities	4,176	4,142	49,813
Total long-term liabilities	23,002	23,344	280,742
Net Assets:			
Shareholders' equity:			
Common stock (Note 7)			
Authorized—			
2010: 1,174,959 thousand shares			
2011: 1,174,959 thousand shares			
Issued—			
2010: 300,465 thousand shares			
2011: 300,465 thousand shares	29,804	29,804	358,442
Capital surplus	14,935	14,935	179,616
Retained earnings	506,726	533,969	6,421,759
Treasury stock, at cost (Note 7)			
(2010: 15,577,100 shares, 2011: 24,664,000 shares)	(30,768)	(46,772)	(562,502)
Total shareholder's equity	520,698	531,937	6,397,315
Accumulated other comprehensive income:			
Net unrealized gains/losses on securities	4,177	1,940	23,330
Foreign currency translation adjustments	(7,324)	(9,374)	(112,735)
Total accumulated other comprehensive income	(3,147)	(7,434)	(89,405)
Minority interests in consolidated subsidiaries	10,210	10,728	129,026
Total net assets	527,761	535,231	6,436,936
Total liabilities and net assets	¥606,443	¥618,434	$7,437,576

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Net sales (Note 15)	¥258,442	¥268,632	$3,230,694
Cost of sales (Notes 5 and 15)	91,739	96,395	1,159,290
Gross profit	166,703	172,237	2,071,403
Selling, general and administrative expenses (Notes 5 and 15)	132,017	128,155	1,541,249
Operating income (Note 15)	34,686	44,082	530,154
Non-operating income:			
Interest income	5,013	5,059	60,846
Dividend income	941	1,121	13,484
Equity in earnings of affiliated companies	—	3,699	44,486
Rental income of real estate	30	40	485
Others (Note 16)	811	529	6,362
	6,795	10,449	125,663
Non-operating expense:			
Interest expense	29	9	102
Equity in losses of affiliated companies	3,877	—	—
Loss on valuation of partnership	—	57	689
Commission fee	—	303	3,650
Others	904	85	1,017
	4,810	454	5,459
Ordinary income	36,671	54,077	650,359
Extraordinary income:			
Gain on sales of fixed assets (Note 5)	15	8	96
Gain on sales of investment securities	—	83	992
	15	90	1,088
Extraordinary loss:			
Loss on disposal of fixed assets (Note 5)	104	51	617
Devaluation loss on investment securities	269	35	424
Loss on impairment of fixed assets (Note 5)	523	—	—
Losses related to disaster (Note 5)	—	1,074	12,920
	896	1,161	13,961
Income before income taxes and minority interests	35,791	53,007	637,486
Income taxes (Note 14)**:**			
Current	16,617	16,898	203,220
Deferred	(1,437)	315	3,785
	15,180	17,212	207,005
Income before minority interests	—	35,794	430,481
Minority interests in consolidated subsidiaries	1,125	902	10,844
Net income (Note 17)	¥ 19,485	¥ 34,893	$ 419,637

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Income before minority interests	¥—	¥35,794	$430,481
Other comprehensive income:			
Unrealized loss on securities	—	(2,002)	(24,078)
Foreign currency translation adjustments	—	(2,055)	(24,710)
Share of other comprehensive income of associates accounted for using the equity method	—	(286)	(3,441)
Total other comprehensive income	—	(4,343)	(52,229)
Comprehensive income	—	31,452	378,252
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	—	30,606	368,081
Comprehensive income attributable to minority interests	—	846	10,171

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity	Net unrealized gains/losses on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance of March 31, 2009	¥29,804	¥14,935	¥535,393	¥(63,184)	¥516,948	¥(3,752)	¥(8,030)	¥(11,782)	¥ 9,345	¥514,511
Changes in the period										
Purchase of treasury stock				(7,927)	(7,927)					(7,927)
Cancellation of treasury stock			(40,366)	40,366						
Dividends			(7,787)		(7,787)					(7,787)
Net income			19,485		19,485					19,485
Effect of changes in the shares of equity-method affiliates				(22)	(22)					(22)
Net changes in items except shareholders' equity						7,929	706	8,635	866	9,501
Total changes in the period			(28,667)	32,416	3,749	7,929	706	8,635	866	13,250
Balance of March 31, 2010	¥29,804	¥14,935	¥506,726	¥(30,768)	¥520,698	¥ 4,177	¥(7,324)	¥ (3,147)	¥10,210	¥527,761
Changes in the period										
Purchase of treasury stock				**(16,005)**	**(16,005)**					**(16,005)**
Cancellation of treasury stock										
Dividends			**(7,649)**		**(7,649)**					**(7,649)**
Net income			**34,893**		**34,893**					**34,893**
Effect of changes in the shares of equity-method affiliates				**0**	**0**					**0**
Net changes in items except shareholders' equity						**(2,237)**	**(2,050)**	**(4,287)**	**518**	**(3,769)**
Total changes in the period			**27,244**	**(16,004)**	**11,239**	**(2,237)**	**(2,050)**	**(4,287)**	**518**	**7,470**
Balance of March 31, 2011	**¥29,804**	**¥14,935**	**¥533,969**	**¥(46,772)**	**¥531,937**	**¥ 1,940**	**¥(9,374)**	**¥ (7,434)**	**¥10,728**	**¥535,231**

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity	Net unrealized gains/losses on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance of March 31, 2010	$358,442	$179,616	$6,094,114	$(370,025)	$6,262,147	$ 50,232	$ (88,081)	$(37,849)	$122,796	$6,347,094
Changes in the period										
Purchase of treasury stock				**(192,479)**	**(192,479)**					**(192,479)**
Cancellation of treasury stock										
Dividends			**(91,992)**		**(91,992)**					**(91,992)**
Net income			**419,637**		**419,637**					**419,637**
Effect of changes in the shares of equity-method affiliates				**2**	**2**					**2**
Net changes in items except shareholders' equity						**(26,902)**	**(24,654)**	**(51,557)**	**6,230**	**(45,327)**
Total changes in the period			**327,645**	**(192,477)**	**135,168**	**(26,902)**	**(24,654)**	**(51,557)**	**6,230**	**89,841**
Balance of March 31, 2011	**$358,442**	**$179,616**	**$6,421,759**	**$(562,502)**	**$6,397,315**	**$ 23,330**	**$(112,735)**	**$(89,405)**	**$129,026**	**$6,436,936**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 35,791	¥ 53,007	$ 637,486
Adjustments:			
Depreciation and amortization (Note 15)	11,533	11,725	141,014
Amortization of goodwill	282	730	8,780
Devaluation losses on investment securities	269	35	424
Gain on sales of fixed assets (Note 5)	(15)	(8)	(96)
Loss on disposals of fixed assets (Note 5)	104	51	617
Loss on impairment of fixed assets (Note 5)	523	—	—
Gain on sales of investment securities	—	(83)	(992)
Interest and dividend income	(5,954)	(6,181)	(74,330)
Interest expense	29	9	102
Equity in losses (earnings) of affiliated companies	3,877	(3,699)	(44,486)
(Decrease) increase in allowance for doubtful accounts	(88)	136	1,637
Increase in accrued retirement benefits	848	356	4,281
Decrease (increase) in prepaid pension costs	32	(857)	(10,307)
Increase in accrued directors' retirement benefits	56	79	954
Increase in accrued bonuses for employees	106	65	782
Increase in provision for loss on disaster	—	1,045	12,562
Decrease (increase) in notes and accounts receivable, trade	3,086	(4,932)	(59,315)
(Increase) decrease in inventories	(1,202)	575	6,918
Increase in notes and accounts payable, trade	2,447	2,416	29,058
Decrease in long-term liabilities	(23)	(58)	(703)
Other, net	(50)	2,617	31,478
Subtotal	51,650	57,030	685,864
Interest and dividends income received	5,860	6,290	75,642
Interest paid	(29)	(9)	(102)
Income taxes paid	(18,006)	(16,817)	(202,248)
Net cash provided by operating activities	39,475	46,494	559,156
Cash flows from investing activities:			
Decrease (increase) in time deposits	39,699	(638)	(7,674)
Proceeds from sale/redemption of marketable securities	2,937	7,500	90,198
Payments for purchases of tangible fixed assets	(5,781)	(7,397)	(88,966)
Proceeds from sales of tangible fixed assets	48	17	203
Payments for purchases of intangible fixed assets	(15,285)	(557)	(6,699)
Proceeds from sales of intangible fixed assets	0	6	67
Payments for purchases of investment securities	(44,520)	(15,941)	(191,717)
Proceeds from sales of investment securities	52,069	16,607	199,719
Payment for purchases of investment in subsidiaries resulting in change in scope of consolidation (Note 8)	(13,999)	—	—
Payments for purchases of investment securities in affiliates	(4,182)	—	—
Proceeds from sales of investment in subsidiaries	—	11	132
Payments for long-term prepaid expenses	(405)	(555)	(6,675)
Other, net	665	156	1,876
Net cash provided by (used in) investing activities	11,245	(793)	(9,534)
Cash flows from financing activities:			
Proceeds from short-term loans payable	375	285	3,428
Repayment of short-term loans payable	(763)	(275)	(3,307)
Repayment of long-term loans payable	—	(1,050)	(12,628)
Repayment of capitalized lease obligations	(240)	(267)	(3,216)
Payments for purchases of treasury stock	(7,927)	(16,005)	(192,479)
(Increase) decrease in money held in trust for purchase of treasury stock	(2,173)	6,886	82,818
Cash dividends paid	(7,753)	(7,624)	(91,689)
Cash dividends paid to minority shareholders	(357)	(328)	(3,948)
Net cash used in financing activities	(18,838)	(18,378)	(221,021)
Effect of exchange rate changes on cash and cash equivalents	212	(677)	(8,144)
Net increase in cash and cash equivalents	32,095	26,646	320,456
Cash and cash equivalents at the beginning of the year	64,862	96,957	1,166,047
Cash and cash equivalents at the end of the year (Note 7)	¥ 96,957	¥123,603	$1,486,504

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements:

The accompanying consolidated financial statements of Taisho Pharmaceutical Co., Ltd. (the "Company") and its domestic and foreign subsidiaries (together, the "Companies") are basically English versions of those which have been filed with the Ministry of Finance and prepared in accordance with accounting principles and practices generally accepted in Japan, which differ in certain respects to the application and disclosure requirements of International Financial Reporting Standards. The preparation of these financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as reported amounts of revenues and expenses during the reporting periods.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan.

The figures shown in the consolidated financial statements have been rounded to the nearest million yen.

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥83.15 = U.S. $1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2011. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

2. Summary of Significant Accounting Policies:

(1) Consolidation

a) Consolidated subsidiaries as of March 31, 2011

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries (25 companies companies at March 31, 2010 and 2011, respectively). Main subsidiaries are as follows:

Taisho Toyama Pharmaceutical Co., Ltd.
Taisho Pharmaceutical Logistics Co., Ltd.
Taisho Okinawa Co., Ltd.
Taisho M.T.C. Co., Ltd.
TAISHO ACTIVE HEALTH Co., Ltd.
Taisho Kosei Service Co., Ltd.
Mejiro Real Estate Co., Ltd.
Shimoda Central Co., Ltd.
Biofermin Pharmaceutical Co., Ltd
PT. Taisho Pharmaceutical Indonesia Tbk
Taisho Pharmaceutical Singapore Private Limited

The consolidated financial statements include the accounts of the Company and all subsidiaries which the Company has the ability to control.

b) Equity-method affiliates

Investments in all affiliated companies (three affiliates at March 31, 2010 and 2011) where shareholdings are more than 20% and where the Company has significant influence over operations, finance and management, are accounted for by the equity method. Main affiliates are Toyama Chemical Co., Ltd. and Yomeishu Seizo Co., Ltd.

Investments in 50% or less owned companies, over which the parent company does not have control but has the ability to exercise significant influence, are accounted for using the equity method. The excess of the cost over the underlying net equity of investments in affiliates accounted for on an equity basis is deferred and amortized over the period in which the future benefit of investments is estimated to continue. Consolidated net income includes the Company's equity in the current earnings of these equity companies after the elimination of unrealized intercompany profits.

(Changes in significant accounting policies)

Effective from the fiscal year ended March 31, 2011, the Company has applied Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, March 10, 2008) and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (Practical Issues Task Force (PITF) No. 24, March 10, 2008).

This implementation had no effect on ordinary income, or income before income taxes and minority interests for the fiscal year ended March 31, 2011.

c) Account closing dates

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. The results of consolidated subsidiaries, except for Taisho Toyama Pharmaceutical Co., Ltd., Mejiro Real Estate Co., Ltd., Shimoda Central Co., Ltd., TAISHO ACTIVE HEALTH Co., Ltd. and Biofermin Pharmaceutical Co., Ltd., are included in the consolidated accounts for the fiscal years ended December 31, 2009 and 2010, while the accounts of the five subsidiaries listed above are consolidated using their results for the fiscal years ended March 31, 2010 and 2011. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted for on consolidation.

(2) Valuation methods for major assets

a) Securities:

1) Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.
2) Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost.

When the fair value of held-to-maturity debt securities or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Debt securities due within one year are presented as "current assets" and all other securities are presented as "investment securities."

b) Derivatives:

All derivatives are stated at fair value, with changes in fair value included in profit or loss in the period in which they arise, except for derivatives that are designated as "hedging instruments."

c) Inventories:

Merchandise, finished goods and work-in-process are stated at the lower of cost or net realizable value, which is determined by the weighted average method. Raw materials are stated at the lower of cost or net realizable value, which is determined by the moving average method. Supplies are stated by using the last purchase price method.

(3) Depreciation and amortization of major assets

a) Tangible fixed assets (except for lease assets):

Tangible fixed assets, including significant renewals and improvements, are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. In the case of retirement or disposal, the difference between the net carrying amount and salvage or sales proceeds is charged or credited to income.

b) Intangible assets (except for lease assets):

The straight-line method is adopted. Sales rights are amortized based on the straight-line method over the expected useful economic life of 10 years. Software for in-house use is amortized based on the straight-line method over the expected useful economic life of 5 years.

c) Lease assets:

The straight-line method is adopted over the lease term with no residual value. However, finance lease transactions that do not transfer ownership, of which contract start dates are prior to April 1, 2008, are accounted for in a manner similar to operating leases.

(4) Basis of provision

a) Allowance for doubtful accounts:

An allowance for doubtful accounts is provided for estimated future losses based on past experience, and based on assessment of the collectability of individual receivables.

b) Provision for sales returns:

Provision for sales returns is provided for the expected returns of sales at the end of the fiscal year.

c) Accrued bonuses to employees:

Accrued bonuses are provided for the expected payments of employees' bonuses at the end of the fiscal year.

d) Accrued retirement benefits for employees:

The lump-sum severance indemnity regulations of the Companies, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service periods, qualification, evaluation and managerial posts.

The accrued retirement benefit represents the excess of the actuarially calculated present value of the projected benefit obligation over the fair value of the plan assets except for, as permitted under the standard, the unrecognized actuarial differences and the unrecognized prior service cost which are amortized on a straight-line basis over the period within the average remaining service period of employees. The unrecognized actuarial differences are amortized from the beginning of the subsequent year, while the unrecognized prior year service costs are amortized from the year in which they arise.

e) Accrued retirement benefits for directors and corporate auditors:

The Company and domestic consolidated subsidiaries have accrued severance indemnities cost for directors and corporate auditors based on internal regulations.

f) Provision for losses related to disaster

A provision for losses related to disaster has been recorded for estimated losses at the end of March 2011 for restoration expenses or losses on assets damaged by the Great East Japan Earthquake.

(5) Foreign currency translation

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies, whether they are long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods. Foreign currency translation adjustments are presented as a component of shareholders' equity in the consolidated financial statements.

(6) Hedge accounting

Gains or losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred as a component of net assets and included in profit or loss in the same period in which the gains or losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Company are principally currency forward contracts and interest rate swaps. A hedged item is an asset, liability, firm commitment, or forecasted future transaction that exposes the enterprise to the risk of changes in fair value or changes in future cash flows and that, for hedge accounting purposes, is designated as being hedged.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange and interest rate fluctuations. Thus, the Company's purchase of hedging instruments is limited to, at maximum, the amount of the items to be hedged.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

The Companies held no derivative instruments during the year ended March 31, 2010 and 2011.

(7) Consumption tax

The consumption tax withheld upon sale and consumption tax paid by the Companies on purchase of goods and services is not included within revenue, cost or expense items in the accompanying consolidated statements of income.

(8) Valuation method for assets and liabilities of subsidiaries which were acquired to become subsidiaries

Assets and liabilities of subsidiaries are measured at fair value as at the date of acquisition when consolidated.

(9) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill are amortized equally over the effective periods.

(10) Cash and cash equivalents in consolidated statements of cash flows

For the purpose of the statements of cash flow, all highly liquid investments which are readily convertible into cash and/or which mature within three months or less are considered to be cash equivalents.

(11) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the fiscal year ended March 31, 2010 have been made to conform to the presentation for the fiscal year ended March 31, 2011.

3. Accounting Changes:

Changes in Notes to the Consolidated Financial Statements

Application of Accounting Standard for Asset Retirement Obligations

Effective from the fiscal year ended March 31, 2011, the Company has applied Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, March 31, 2008) and Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008). This implementation had no effect on operating income, ordinary income, or income before income taxes and minority interests in the fiscal year ended March 31, 2011.

[Changes in presentation method]

Consolidated Statements of Income

(1) Effective from the fiscal year ended March 31, 2011, the Company has applied Cabinet Office Ordinance Regarding Partial Amendment of the Regulation for Terminology, Forms and Preparation of Financial Statements (Cabinet Office Ordinance No. 5, March 24, 2009), based on Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, December 26, 2008). As a result, income before minority interests is included in the financial statements effective from the fiscal year ended March 31, 2011.

(2) Loss on valuation of partnership is presented separately under non-operating expense because it exceeded 10% of total non-operating expenses in the fiscal year ended March 31, 2011. Previously, loss on valuation of partnership was included in others under non-operating expense. In the fiscal year ended March 31, 2010, loss on valuation of partnership was ¥233 million.

(3) Commission fee is presented separately under non-operating expense because it exceeded 10% of total non-operating expenses in the fiscal year ended March 31, 2011. Previously, commission fee was included in others under non-operating expense. In the fiscal year ended March 31, 2010, commission fee was ¥173 million.

(Additional information)

Effective from the fiscal year ended March 31, 2011, the Company has applied Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010). However, the amounts recorded as total other comprehensive income and total accumulated other comprehensive income for the fiscal year ended March 31, 2010 correspond to the amounts recorded as valuation and translation adjustments and total valuation and translation adjustments, respectively.

4. Notes to Consolidated Balance Sheets:

(1) Accumulated depreciation

Accumulated depreciation includes the accumulated amounts of impairment losses.

5. Notes to Consolidated Statements of Income:

(1) Research and development expenditures

Research and development expenditures, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥28,118 million and ¥23,678 million ($284,761 thousand) for the fiscal years ended March 31, 2010 and 2011, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2010	2011	2011
Research and development expenditures	¥28,118	¥23,678	$284,761

(2) Selling, general and administrative expenses

The major components of "Selling, general and administrative expenses" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2010	2011	2011
Freight charges	¥ 7,571	¥ 7,173	$ 86,268
Advertisement costs	16,454	15,143	182,122
Sales promotion costs	24,113	23,998	288,606
Salaries and bonuses	23,400	23,431	281,794
Provisions for bonuses to employees	2,551	2,601	31,276
Pension costs	2,079	2,007	24,133
Research and development expenditures	28,118	23,678	284,761
Depreciation	5,264	5,733	68,943
Others	22,466	24,392	293,346
Total	¥132,017	¥128,155	$1,541,249

(3) The breakdown of gain on sales and loss on disposal of fixed assets

Details of gain on sales of fixed assets are as follows:

March 31, 2010	Millions of yen
Buildings and structures	¥11
Machinery, equipment and vehicles	4
Land	0
Others	0
Total	¥15

March 31, 2011	Millions of yen	Thousands of U.S. dollars (Note 1)
Machinery, equipment and vehicles	¥8	$96
Others	0	0
Total	¥8	$96

Details of loss on disposal of fixed assets are as follows:

March 31, 2010	Millions of yen
Buildings and structures	¥ 10
Machinery, equipment and vehicles	73
Land	13
Others	7
Total	¥104

March 31, 2011	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	¥12	$145
Machinery, equipment and vehicles	28	339
Others	11	133
Total	¥51	$617

(4) Loss on impairment of fixed assets

The Company recorded a loss on impairment of fixed assets for the fiscal year ended March 31, 2010 on the following group of assets:

Location	Use	Type of asset	Impairment loss Millions of yen
Kita Ward, Saitama City, Saitama Prefecture	Idle assets	Buildings and structures	¥313
		Machinery, equipment and vehicles	209
		Others	1
Total			¥523

In principle, the Companies' business-use assets are grouped according to the smallest group of cash generating units, and idle assets are grouped on individual basis.

For the year ended March 31, 2010, the Company wrote down the carrying amount of idle assets without specific future use to zero and recorded this as a loss on impairment of fixed assets in extraordinary loss.

(5) Losses related to disaster

Disaster losses represent losses attributable to the Great East Japan Earthquake, and are broken down as follows:

March 31, 2011	Millions of yen	Thousands of U.S. dollars (Note 1)
Estimated damage to inventories	¥ 558	$ 6,707
Estimated damage to fixed assets	487	5,855
Others	30	358
Total	¥1,074	$12,920

6. Notes to Consolidated Statements of Comprehensive Income:

Comprehensive income in the fiscal year ended March 31, 2010

	Millions of yen 2010
Comprehensive income attributable to owners of the parent	¥28,120
Comprehensive income attributable to minority interests	1,188
Total	¥29,309

Other comprehensive income in the fiscal year ended March 31, 2010

	Millions of yen 2010
Net unrealized gains/losses on securities	¥7,799
Foreign currency translation adjustments	712
Share of other comprehensive income of affiliates accounted for using the equity method	187
Total	¥8,698

7. Notes to Consolidated Statements of Changes in Net Assets:

(1) Shares issued

March 31, 2010 Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	320,465	—	20,000	300,645

March 31, 2011 Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	300,465	—	—	300,465

(2) Treasury stock

March 31, 2010 Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	31,130	4,446	20,000	15,577

Note 1. Treasury stock increased due to the fact that the Company bought shares as a result of Board decision to purchase 4,371 thousand shares. In addition, the Company bought 65 thousand fractional shares which are less than thousand shares. Treasury stock also increased by 10 thousand shares due to the change of interest for equity method affiliates.

Note 2. Treasury stock decreased due to the cancellation of 20,000 thousand shares on June 26, 2009.

March 31, 2011 Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	15,577	9,087	0	24,664

Note 1. Treasury stock increased due to the fact that the Company bought shares as a result of Board decision to purchase 9,020 thousand shares. In addition, the Company bought 67 thousand fractional shares which are less than thousand shares.

Note 2. Treasury stock also decreased by 0 thousand shares due to the change of interest for equity method affiliates.

(3) Matters related to dividends

a) Amount of dividends paid:

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Fiscal resource of dividends	Dividends per share (Yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 26, 2009	Common stock	4,343	Retained earnings	15	March 31, 2009	June 29, 2009
Meeting of directors held on October 30, 2009	Common stock	3,444	Retained earnings	12	September 30, 2009	December 3, 2009

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Fiscal resource of dividends	Dividends per share (Yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	4,277	Retained earnings	15	March 31, 2010	June 30, 2010
Meeting of directors held on October 29, 2010	Common stock	3,373	Retained earnings	12	September 30, 2010	December 3, 2010

Resolution	Type of stock	Total amount of dividends (Thousands of U.S. dollars) (Note 1)	Fiscal resource of dividends	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	51,431	Retained earnings	0.18	March 31, 2010	June 30, 2010
Meeting of directors held on October 29, 2010	Common stock	40,561	Retained earnings	0.14	September 30, 2010	December 3, 2010

b) Of the dividends for which the date of record is in the fiscal year ended March 31, 2010 and 2011, those dividends with effective date in the following consolidated fiscal year are as follows.

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Fiscal resource of dividends	Dividends per share (Yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	4,277	Retained earnings	15	March 31, 2010	June 30, 2010

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Fiscal resource of dividends	Dividends per share (Yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2011	Common stock	4,140	Retained earnings	15	March 31, 2011	June 30, 2011

Resolution	Type of stock	Total amount of dividends (Thousands of U.S. dollars) (Note 1)	Fiscal resource of dividends	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2011	Common stock	49,792	Retained earnings	0.18	March 31, 2011	June 30, 2011

8. Notes to Consolidated Statements of Cash Flows:

(1) Cash and cash equivalents

Cash and cash equivalents at March 31, 2010 and 2011 comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Cash and time deposits with original maturity of three months or less	¥105,625	**¥133,423**	**$1,604,602**
Marketable securities	7,599	**—**	**—**
Sub total	113,224	**133,423**	**1,604,602**
Cash and time deposits with original maturity of more than three months	(8,765)	**(9,820)**	**(118,099)**
Marketable securities with original maturity of more than three months	(7,502)	**—**	**—**
Total	¥ 96,957	**¥123,603**	**$1,486,504**

(2) Assets and liabilities of newly consolidated subsidiary by acquisition of shares

Assets and liabilities of newly consolidated subsidiary by acquisition of shares at the inception of consolidation, related acquisition cost and net expenditure for acquisition of shares are as follows:

March 31, 2010	Millions of yen
Current assets	¥ 2,306
Fixed assets	919
Goodwill	12,035
Current liabilities	(562)
Long-term liabilities	(176)
Minority interests	(36)
Acquisition cost of shares	14,487
Cash and cash equivalents of the acquired company	(487)
Payment for acquisition of shares of newly consolidated subsidiary	¥13,999

9. Finance Leases (Lessee):

Finance leases other than those which transfer ownership of properties to lessees

a) Types of lease assets:

Tangible fixed assets

Mainly information technology equipment.

b) Depreciation method:

Please refer to Note 2. (3) Depreciation and amortization of major assets (c) lease assets.

Finance lease transactions that do not transfer ownership, of which the contract start date is prior to April 1, 2008, are accounted for as operating leases. The details are as follows:

(1) Finance leases other than those which do not transfer ownership of properties to lessees are below:

	Millions of yen
	2010
Tools, instruments and furniture	¥ 1,941
Software	140
Others	20
At cost—sub total	2,101
Accumulated depreciation	(1,371)
Total	¥ 730

(2) The present values of future lease payments of the Companies, excluding the amounts representing interest, at March 31, 2010 are as follows:

	Millions of yen
	2010
Current obligation	¥476
Long-term obligation	274
Present value of future lease payments	¥750

(3) Lease payments and amounts representing depreciation and interest, at March 31, 2010 are as follows:

	Millions of yen
	2010
Lease payments	¥641
Amount representing depreciation	600
Amount representing interest	27

Detailed notes for the fiscal year ended March 31, 2011 have been omitted as they are insignificant.

10. Financial Instruments

The following information relates to the year ended March 31, 2010.

(1) Status of financial instruments

a) Policy related to financial instruments:

The Company and consolidated subsidiaries invest only in short-term deposits and highly secure financial assets in accordance with the internal guideline for fund management. The Companies raise funds through borrowings from financial institutions including banks. The Companies do not enter into derivative transactions for speculative purposes. The Companies did not enter into any derivative transactions for the fiscal year ended March 31, 2010.

b) Details of financial instruments, risks and risk management system:

Notes and accounts receivable—trade are exposed to customer credit risk. In order to mitigate the risk, the balances and status of these receivables are monitored and managed in accordance with the internal management regulations for credit risk.

Marketable securities and investment securities mainly consist of equity securities, corporate bonds and preferred equity securities. While marketable securities and investment securities are exposed to market price fluctuation risk, the Company monitors market prices of these securities and financial conditions of the issuers periodically.

Notes and accounts payable—trade are due within one year.

Short-term loans are made in order to finance capital expenditures of a consolidated subsidiary.

While trade payables and borrowings are exposed to liquidity risk, the Company manages the risk mainly by detailed planning for cash receipts and disbursements.

c) Supplementary explanation regarding the fair values of financial instruments:

The fair value of financial instruments is based on market values as well as reasonably determined values in situations where the market value is unavailable.

(2) Fair value of financial instruments

Amounts carried on the consolidated balance sheet, their fair values, and the differences between them as of March 31, 2010 are as follows:

	Millions of yen		
March 31, 2010	Carrying amount	Fair value	Variance
a) Cash and deposits	¥105,625	¥105,625	¥ —
b) Notes and accounts receivable—trade	60,380		
Allowance for doubtful accounts	(149)		
	60,230	60,230	—
c) Marketable securities	7,502	7,502	—
d) Investment securities			
(i) Held-to-maturity securities	1,842	1,882	40
(ii) Available-for-sale securities	200,321	200,321	—
e) Investment securities in affiliates	7,877	5,940	(1,937)
f) Notes and accounts payable—trade	(22,689)	(22,689)	—
g) Short-term loans	(1,275)	(1,275)	—
h) Accounts payable	(10,229)	(10,229)	—
i) Accrued income taxes	(7,972)	(7,972)	—

Note 1. Method of calculating fair value of financial instruments and matters regarding securities

a) Cash and deposits, and b) Notes and accounts receivable—trade (after deduction of amounts for allowance for doubtful accounts)

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

c) Marketable securities, d) Investment securities and e) Investment securities in affiliates

The fair values of equity securities are determined by their market prices on stock exchanges. The fair values of bonds are determined according to market prices indicated on bond exchanges or the values indicated by financial institutions handling these transactions.

f) Notes and accounts payable-trade, g) Short-term loans, h) Accounts payable and i) Accrued income taxes.

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

Note 2. Financial instruments for which fair value is not readily determinable

Category	Carrying amount Millions of yen 2010
Unlisted equity securities	¥ 432
Investment securities in affiliates	39,180
Investment in limited partnerships	220
Other	97

These instruments are not included in c) Marketable securities, d) (ii) Investment securities—available-for-sale securities and e) Investment securities in affiliates, as they have no market value, and their fair value is not readily determinable.

Note 3. Redemption schedule for monetary assets and expected maturity values of securities

	Millions of yen			
March 31, 2010	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	¥105,625	¥ —	¥ —	¥—
Notes and accounts receivable—trade	60,380	—	—	—
Marketable securities and investment securities				
Held-to-maturity securities (corporate bonds)	—	1,842	—	—
Available-for-sale securities with maturities				
(a) Bonds (corporate bonds)	4,300	300	25,300	—
(b) Other	5,000	—	—	—

(Additional information)

Accounting Standard for Financial Instruments (ASBJ Statement No. 10, March 10, 2008) and Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008) has been applied effective from the fiscal year ended March 31, 2010.

The following information relates to the year ended March 31, 2011.

(1) Status of financial instruments

a) Policy related to financial instruments:

The Company and consolidated subsidiaries invest only in short-term deposits and highly secure financial assets in accordance with the internal guideline for fund management. The Companies raise funds through borrowings from financial institutions including banks. The Companies do not enter into derivative transactions for speculative purposes. The Companies did not enter into any derivative transactions for the fiscal year ended March 31, 2011.

b) Details of financial instruments, risks and risk management system:

Notes and accounts receivable—trade are exposed to customer credit risk. In order to mitigate the risk, the balances and status of these receivables are monitored and managed in accordance with the internal management regulations for credit risk.

Investment securities mainly consist of equity securities, corporate bonds and preferred equity securities. While marketable securities and investment securities are exposed to market price fluctuation risk, the Company monitors market prices of these securities and financial conditions of the issuers periodically.

Notes and accounts payable—trade are due within one year.

Short-term loans are made in order to working capital of a consolidated subsidiary.

While trade payables and borrowings are exposed to liquidity risk, the Company manages the risk mainly by detailed planning for cash receipts and disbursements.

c) Supplementary explanation regarding the fair values of financial instruments:

The fair value of financial instruments is based on market values as well as reasonably determined values in situations where the market value is unavailable.

(2) Fair value of financial instruments

Amounts carried on the consolidated balance sheet, their fair values, and the differences between them as of March 31, 2011 are as follows:

	Millions of yen		
March 31, 2011	Carrying amount	Fair value	Variance
a) Cash and deposits	¥133,423	¥133,423	¥ —
b) Notes and accounts receivable—trade	65,171		
Allowance for doubtful accounts	(312)		
	64,860	64,860	—
c) Investment securities			
(i) Held-to-maturity securities	1,630	1,663	33
(ii) Available-for-sale securities	196,224	196,224	—
d) Investment securities in affiliates	7,830	5,194	(2,636)
e) Notes and accounts payable—trade	(25,064)	(25,064)	—
f) Short-term loans	(235)	(235)	—
g) Accounts payable	(11,757)	(11,757)	—
h) Accrued income taxes	(8,019)	(8,019)	—

March 31, 2011	Thousands of U.S. dollars (Note 1) Carrying amount	Fair value	Variance
a) Cash and deposits	$1,604,602	$1,604,602	$ —
b) Notes and accounts receivable—trade	783,781		
Allowance for doubtful accounts	(3,750)		
	780,032	780,032	—
c) Investment securities			
(i) Held-to-maturity securities	19,601	20,001	400
(ii) Available-for-sale securities	2,359,885	2,359,885	—
d) Investment securities in affiliates	94,170	62,468	(31,702)
e) Notes and accounts payable—trade	(301,432)	(301,432)	—
f) Short-term loans	(2,826)	(2,826)	—
g) Accounts payable	(141,389)	(141,389)	—
h) Accrued income taxes	(96,442)	(96,442)	—

Note 1. Method of calculating fair value of financial instruments and matters regarding securities

a) Cash and deposits, and b) Notes and accounts receivable—trade (after deduction of amounts for allowance for doubtful accounts)

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

c) Investment securities and d) Investment securities in affiliates

The fair values of equity securities are determined by their market prices on stock exchanges. The fair values of bonds are determined according to market prices indicated on bond exchanges or the values indicated by financial institutions handling these transactions.

e) Notes and accounts payable-trade, f) Short-term loans, g) Accounts payable and h) Accrued income taxes

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

Note 2. Financial instruments for which fair value is not readily determinable

Category	Carrying amount Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2011
Unlisted equity securities	¥ 425	$ 5,111
Investment securities in affiliates	42,521	511,378
Investment in limited partnerships	111	1,340
Other	—	—

These instruments are not included in c) (ii) Investment securities—available-for-sale securities and d) Investment securities in affiliates, as they have no market value, and their fair value is not readily determinable.

Note 3. Redemption schedule for monetary assets and expected maturity values of securities

March 31, 2011	Millions of yen Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	¥133,423	¥—	¥ —	¥—
Notes and accounts receivable—trade	65,171	—	—	—
Investment securities				
Held-to-maturity securities (corporate bonds)	—	—	1,630	—
Available-for-sale securities with maturities (corporate bonds)	—	—	40,800	—

March 31, 2011	Thousands of U.S. dollars (Note 1) Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	$1,604,602	$—	$ —	$—
Notes and accounts receivable—trade	783,781	—	—	—
Investment securities				
Held-to-maturity securities (corporate bonds)	—	—	19,601	—
Available-for-sale securities with maturities (corporate bonds)	—	—	490,679	—

11. Marketable and Investment Securities:

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2010.

(1) Held-to-maturity securities

March 31, 2010	Millions of yen Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	¥ —	¥ —	¥—
(2) Corporate bonds	1,842	1,882	40
Sub total	1,842	1,882	40
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	—	—	—
Sub total	—	—	—
Total	¥1,842	¥1,882	¥40

(2) Available-for-sale securities

March 31, 2010	Millions of yen Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	¥ 30,723	¥ 20,791	¥ 9,931
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	54,803	53,302	1,500
(4) Others	78,125	75,000	3,125
Sub total	163,651	149,094	14,557
Securities whose carrying amounts on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	20,447	25,117	(4,670)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	23,725	23,852	(127)
(4) Others	—	—	—
Sub total	44,173	48,969	(4,797)
Total	¥207,823	¥198,063	¥ 9,760

Available-for-sale securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2010

For unlisted equity securities with a carrying amount of ¥432 million, investment in limited partnerships with a carrying amount of ¥220 million and other available-for-sale securities with a carrying amount of ¥97 million, there is no quoted market price available and an inability to estimate the future cash flows. These instruments are not included in available-for-sale securities as their fair value is not readily determinable.

(3) Available-for-sale securities sold in the fiscal year ended March 31, 2010

No available-for-sale securities were sold in the fiscal year ended March 31, 2010.

(4) Devaluation loss on investment securities

Devaluation loss on investment securities for the year ended March 31, 2010, totaled ¥269 million. Devaluation losses on securities are recognized if the fair market value of securities declines more than 50% of their carrying amount.

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2011.

(1) Held-to-maturity securities

March 31, 2011	Millions of yen Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	¥ —	¥ —	¥—
(2) Corporate bonds	1,630	1,663	33
Sub total	1,630	1,663	33
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	—	—	—
Sub total	—	—	—
Total	¥1,630	¥1,663	¥33

March 31, 2011	Thousands of U.S. dollars (Note 1) Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	$ —	$ —	$ —
(2) Corporate bonds	19,601	20,001	400
Sub total	19,601	20,001	400
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	—	—	—
Sub total	—	—	—
Total	$19,601	$20,001	$400

(2) Available-for-sale securities

	Millions of yen		
March 31, 2011	Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	¥ 18,966	¥ 13,194	¥ 5,772
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	48,518	46,926	1,592
(4) Others	76,633	70,000	6,633
Sub total	144,117	130,120	13,997
Securities whose carrying amounts on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	25,599	32,995	(7,395)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	26,508	26,703	(195)
(4) Others	—	—	—
Sub total	52,107	59,698	(7,590)
Total	¥196,224	¥189,818	¥ 6,407

	Thousands of U.S. dollars (Note 1)		
March 31, 2011	Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	$ 228,094	$ 158,676	$ 69,418
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	583,498	564,355	19,143
(4) Others	921,628	841,852	79,776
Sub total	1,733,221	1,564,883	168,338
Securities whose carrying amounts on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	307,870	396,808	(88,938)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	318,794	321,142	(2,348)
(4) Others	—	—	—
Sub total	626,664	717,950	(91,286)
Total	$2,359,885	$2,282,833	$77,052

Available-for-sale securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2011

For unlisted equity securities with a carrying amount of ¥425 million ($5,111 thousand) and investment in limited partnerships with a carrying amount of ¥111 million ($1,340 thousand), there is no quoted market price available and an inability to estimate the future cash flows. These instruments are not included in available-for-sale securities as their fair value is not readily determinable.

(3) Available-for-sale securities sold in the fiscal year ended March 31, 2011

	Millions of yen		
March 31, 2011	Proceeds from sales	Total gain on sales	Total losses on sales
(1) Equity securities	¥ —	¥—	¥—
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	383	83	—
(4) Others	—	—	—
Total	¥383	¥83	¥—

	Thousands of U.S. dollars (Note 1)		
March 31, 2011	Proceeds from sales	Total gain on sales	Total losses on sales
(1) Equity securities	$ —	$ —	$—
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	4,600	992	—
(4) Others	—	—	—
Total	$4,600	$992	$—

(4) Devaluation loss on investment securities

Devaluation loss on investment securities for the year ended March 31, 2011, totaled ¥35 million ($ 424 thousand). Devaluation losses on securities are recognized if the fair market value of securities declines more than 50% of their carrying amount.

12. Derivative Financial Instruments

The Companies utilize derivative financial instruments selectively, to hedge foreign exchange risk and floating interest exchange risk. The Companies held no derivative instruments during the fiscal years ended March 31, 2010 and 2011.

13. Pension and Severance Plans:

The funded status as at March 31, 2010 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	**2011**	**2011**
(1) Projected benefit obligation	¥(43,882)	**¥(45,632)**	**$(548,797)**
(2) Fair value of plan assets	28,445	**29,736**	**357,613**
(3) Unfunded benefit obligation (1)+(2)	(15,438)	**(15,897)**	**(191,184)**
(4) Unrecognized prior service cost	(4,098)	**(3,728)**	**(44,837)**
(5) Unrecognized actuarial gain/loss	4,974	**5,572**	**67,014**
(6) Net liability (3)+(4)+(5)	(14,562)	**(14,053)**	**(169,007)**
(7) Prepaid pension expenses	2,350	**3,207**	**38,573**
(8) Accrued retirement benefits (6)–(7)	¥(16,912)	**¥(17,260)**	**$(207,580)**

The components of net retirement costs for the fiscal years ended March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	**2011**	**2011**
(1) Service costs	¥2,088	**¥2,176**	**$26,165**
(2) Interest costs	904	**951**	**11,436**
(3) Expected return on plan assets	(739)	**(711)**	**(8,552)**
(4) Amortization of prior service costs	(370)	**(370)**	**(4,453)**
(5) Amortization of actuarial gain/loss	572	**460**	**5,530**
(6) Retirement costs (1)+(2)+(3)+(4)+(5)	2,454	**2,505**	**30,126**
(7) Others*	580	**575**	**6,912**
Total (6)+(7)	¥3,034	**¥3,080**	**$37,038**

* The payment amounts for defined contribution plan.

Assumptions used for the year ended March 31, 2010 and 2011 were as follows:

	2010	**2011**
Discount rate	2.0%	**2.0%**
Expected return on plan assets	3.0%	**2.5%**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Period for amortization of prior service cost	15–17 years	**15–17 years**
Period for amortization of actuarial gain/loss	15–17 years	**15–17 years**

14. Income Taxes:

The significant components of deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	**2011**	**2011**
Deferred tax assets:			
Enterprise taxes	¥ 715	**¥ 732**	**$ 8,804**
Accrued expenses	2,321	**2,520**	**30,307**
Research expenses, etc.	2,329	**2,247**	**27,024**
Accrued bonuses	1,754	**1,775**	**21,348**
Accrued employees retirement benefits	6,560	**6,700**	**80,574**
Accrued retirement benefits for directors, statutory auditors and executive officers	562	**594**	**7,150**
Prepaid research expenses	5,723	**5,139**	**61,807**
Evaluation loss on investment securities	1,678	**615**	**7,395**
Valuation difference on available-for-sale securities	1,938	**3,069**	**36,914**
Operating loss carry forwards for tax purposes	551	**563**	**6,774**
Others	5,614	**5,870**	**70,593**
Gross deferred tax assets	29,744	**29,825**	**358,689**
Less: Valuation allowance	(2,737)	**(1,680)**	**(20,202)**
Total deferred tax assets	27,006	**28,145**	**338,487**
Deferred tax liabilities:			
Net unrealized gains on securities	(5,900)	**(5,680)**	**(68,307)**
Deferred gain on sales of real property	(2,520)	**(2,458)**	**(29,563)**
Prepaid pension expenses	(952)	**(1,299)**	**(15,622)**
Undistributed earnings of overseas subsidiaries and affiliates	(322)	**(361)**	**(4,342)**
Total deferred tax liabilities	(9,693)	**(9,798)**	**(117,834)**
Net deferred tax assets	¥17,313	**¥18,347**	**$ 220,653**

The tax rate reconciliations for the fiscal years ended March 31, 2010 and 2011 are as follows:

	March 31, 2010	March 31, 2011
Statutory tax rate	40.5%	40.5%
(Reconciliation)		
Entertainment expenses	1.9	1.6
Dividend income	(0.5)	(0.4)
Amortization of goodwill	0.3	0.6
Research expenses	(6.0)	(4.3)
Equity accounted losses of affiliated companies	4.4	(2.8)
Valuation allowance	0.7	(2.0)
Others	1.1	(0.7)
Effective income tax rate	42.4%	32.5%

15. Segment Information:

The following information relates to the year ended March 31, 2010.

(1) Industry segment information

	Millions of yen				
March 31, 2010	Self-medication	Pharmaceutical	Total	Eliminations/ Corporate	Consolidated
I. Net sales:					
(1) Outside customers	¥158,851	¥ 99,591	¥258,442	¥ —	¥258,442
(2) Inter-segment	—	—	—	—	—
Total	158,851	99,591	258,442	—	258,442
Operating expense	128,393	95,363	223,756	—	223,756
Operating Profit	¥ 30,459	¥ 4,227	¥ 34,686	¥ —	¥ 34,686
II. Assets, depreciation and capital expenditures:					
Assets	¥215,667	¥149,875	¥365,542	¥240,901	¥606,443
Depreciation and amortization	8,588	2,945	11,533	—	11,533
Capital expenditures	15,990	5,536	21,526	—	21,526

Note 1. The two segments—Self-Medication Operation Group and Prescription Drug Operation Group—have been divided taking into account the similarity of product types, markets and sales methods.

Note 2. The main products belonging to each segment are as follows:
Self-Medication Operation Group
Over-the-counter (OTC) drugs, Foods for Specified Health Use, food, general medical and hygiene supplies, real estate leasing and facility management, hotel management operations
Prescription Drug Operation Group
Ethical drugs

Note 3. Segment assets included in other are mainly comprised of surplus investment funds (cash and deposits, marketable securities and other investments) and long-term investment assets (investment securities, etc.) at the parent that are not included in the reporting segments. These assets totaled ¥240,901 million.

Note 4. Depreciation includes amortization of long-term prepaid expenses.

Note 5. The increase in property, plant and equipment and intangible fixed assets includes the increase in long-term prepaid expenses.

(2) Geographic area segment information

As sales and assets in Japan accounted for more than 90% of total net sales and total assets, segment information relating to geographic area has been omitted.

(3) Geographic area information and export sales information

As the total sales from consolidated subsidiaries outside Japan and the total export sales overseas are less than 10% of the consolidated net sales, information relating to geographic area and export sales has been omitted.

The following information relates to the year ended March 31, 2011.

1. Outline of reporting segments

The Company's reporting segments are the components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

The Company's reporting segments are the Self-Medication Operation Group and the Prescription Drug Operation Group. This classification is based on the differences in sales methods for over-the-counter (OTC) drugs and ethical drugs and the difference in the degree of business risk associated with the R&D expense burden in each segment.

The Self-Medication Operation Group conducts R&D, manufacturing and sales of OTC drugs, Foods for Specified Health Use, food, and general medical and hygiene supplies.

The Prescription Drug Operation Group conducts R&D, manufacturing and sales of ethical drugs.

Real estate leasing and facility management, and hotel management operations are included in the Self-Medication Operation Group due to their insignificance.

2. Method for calculating sales, income and loss, assets and liabilities, and other items by reporting segment

The total amounts for each line item of the reporting segments correspond to the amounts reported on the consolidated balance sheets and consolidated statements of income.

The accounting treatment methods for the reporting segments are consistent with the accounting treatment methods described in the Notes to the Consolidated Financial Statements.

Segment income for each reporting segment is presented on an operating income basis.

3. Information on sales, income and loss, assets and liabilities, and other items by reporting segment

For the year ended March 31, 2010:

	Millions of yen				
March 31, 2010	Self-medication	Pharmaceutical	Total	Other	Consolidated
Net sales:					
(1) Outside customers	¥158,851	¥ 99,591	¥258,442	¥ —	¥258,442
(2) Inter-segment	—	—	—	—	—
Total	158,851	99,591	258,442	—	258,442
Segment income	30,459	4,227	34,686	—	34,686
Segment assets	215,667	149,875	365,542	240,901	606,443
Other items					
Depreciation	¥8,588	2,945	11,533	—	11,533
Amortization of goodwill	282	—	282	—	282
Investment in equity-method affiliates	7,917	39,141	47,058	—	47,058
Tangible and intangible fixed assets	15,990	5,536	21,526	—	21,526

Note 1. Segment assets included in other mainly comprise surplus investment funds (cash and deposits, marketable securities and other investments) and long-term investment assets (investment securities, etc.) at the parent that are not included in reporting segments. These assets totaled ¥240,901 million.
Note 2. Depreciation includes amortization of long-term prepaid expenses.
Note 3. The increase in tangible and intangible fixed assets includes the increase in long-term prepaid expenses.
Note 4. Segment income matches operating income in the consolidated financial statements.

For the year ended March 31, 2011:

	Millions of yen				
March 31, 2011	Self-medication	Pharmaceutical	Total	Other	Consolidated
Net sales:					
(1) Outside customers	¥167,195	¥101,437	¥268,632	¥ —	¥268,632
(2) Inter-segment	—	—	—	—	—
Total	167,195	101,437	268,632	—	268,632
Segment income	38,386	5,696	44,082	—	44,082
Segment assets	249,088	161,223	410,311	208,123	618,434
Other items					
Depreciation	8,936	2,789	11,725	—	11,725
Amortization of goodwill	730	—	730	—	730
Investment in equity-method affiliates	7,868	42,483	50,351	—	50,351
Tangible and intangible fixed assets	6,094	2,324	8,418	—	8,418

	Thousands of U.S. dollars (Note 1)				
March 31, 2011	Self-medication	Pharmaceutical	Total	Other	Consolidated
Net sales:					
(1) Outside customers	$2,010,767	$1,219,926	$3,230,694	$ —	$3,230,694
(2) Inter-segment	—	—	—	—	—
Total	2,010,767	1,219,926	3,230,694	—	3,230,694
Segment income	461,647	68,507	530,154	—	530,154
Segment assets	2,995,649	1,938,940	4,934,589	2,502,987	7,437,576
Other items					
Depreciation	107,466	33,547	141,014	—	141,014
Amortization of goodwill	8,780	—	8,780	—	8,780
Investment in equity-method affiliates	94,625	510,922	605,547	—	605,547
Tangible and intangible fixed assets	73,287	27,955	101,242	—	101,242

Note 1. Segment assets included in other mainly comprise surplus investment funds (cash and deposits, other investments) and long-term investment assets (investment securities, etc.) at the parent that are not included in reporting segments. These assets totaled ¥208,123 million ($2,502,987 thousand).
Note 2. Depreciation includes amortization of long-term prepaid expenses.
Note 3. The increase in tangible and intangible fixed assets includes the increase in long-term prepaid expenses.
Note 4. Segment income matches operating income in the consolidated financial statements.

[Related information]

1. Information by product and service

Information by product and service has been omitted as it is same as the reporting segments.

2. Information by geographic region

(1) Sales

Information by geographic region has been omitted as sales to external customers in Japan are more than 90% of net sales reported on the consolidated statements of income.

(2) Tangible fixed assets

The Company has omitted disclosure here because tangible fixed assets in Japan account for more than 90% of the amount of tangible fixed assets reported on the consolidated balance sheets.

3. Information by major customer

Information by major customer has been omitted as sales to any specific external customer are less than 10% of net sales reported on the consolidated statement of income.

[Information on impairment on fixed assets by reporting segments' fixed assets]

Not applicable

[Information on amortization and unamortized balance of goodwill by reporting segment]

	Millions of yen			
March 31, 2011	Self-medication	Pharmaceutical	Other	Total
Goodwill amortization	¥ 730	—	—	¥ 730
Unamortized balance of goodwill	13,397	—	—	13,397

	Thousands of U.S. dollars (Note 1)			
March 31, 2011	Self-medication	Pharmaceutical	Other	Total
Goodwill amortization	$ 8,780	—	—	$ 8,780
Unamortized balance of goodwill	161,123	—	—	161,123

[Information on gains on negative goodwill by reporting segment]

Not applicable.

(Additional information)

Effective from the fiscal year ended March 31, 2011, the Company has applied Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and its accompanying Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008).

16. Related Party Transactions:

For the year ended March 31, 2010:

(1) Related transaction with the subsidiaries of the Company—Directors and individual shareholders

Name	Location	Capital	Shares with voting rights owned by Company in related party/(owned by related party in Company)	Transactions	Amounts (Millions of yen)	Closing balances	Amounts (Millions of yen)
Taisei Co., Ltd.	Toshima ward, Tokyo	¥100 million	(1.27%)	Other income	¥33	Other assets	¥1

Note 1. Consumption taxes are excluded from transaction amounts but are included in the closing balances.

Note 2. Transaction conditions and policy on determination of transaction conditions. They are determined in the same way as the terms and conditions of ordinary transactions.

Note 3. Akira Uehara, a corporate officer of Taisho Pharmaceutical Co., Ltd., and his relatives directly own 100% of the shares with voting rights.

For the year ended March 31, 2011:

(1) Related transaction with the Company—Unconsolidated subsidiaries and affiliates

Name	Location	Capital	Shares with voting rights owned by Company in related party/(owned by related party in Company)	Transactions	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)	Closing balances	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	¥2,132	$25,644	Accounts payable	¥604	$7,264

Note 1. Consumption taxes are excluded from transaction amounts but are included in the closing balances.

Note 2. Transaction conditions and policy on determination of transaction conditions The purchase price is determined with reference to third-party selling prices.

(2) Related transaction with the subsidiaries of the Company—Unconsolidated subsidiaries and affiliates

Name	Location	Capital	Shares with voting rights owned by Company in related party/(owned by related party in Company)	Transactions	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)	Closing balances	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	¥20,687	$248,795	Accounts payable	¥11,390	$136,983

Note 1. Consumption taxes are excluded from transaction amounts but are included in the closing balances.

Note 2. Transaction conditions and policy on determination of transaction conditions. The purchase price is determined with reference to third-party selling prices.

(3) Related transaction with the subsidiaries of the Company—Directors and individual shareholders

Name	Location	Capital	Shares with voting rights owned by Company in related party/(owned by related party in Company)	Transactions	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)	Closing balances	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)
Taisei Co., Ltd.	Toshima ward, Tokyo	¥100 million	(1.32%)	Other income	¥31	$374	Other assets	¥1	$7

Note 1. Consumption taxes are excluded from transaction amounts but are included in the closing balances.

Note 2. Transaction conditions and policy on determination of transaction conditions. They are determined in the same way as the terms and conditions of ordinary transactions.

Note 3. Akira Uehara, a corporate officer of Taisho Pharmaceutical Co., Ltd., and his relatives directly own 100% of the shares with voting rights.

17. Per Share Information:

The computation of net income per share is based on the weighted-average number of common shares outstanding during each fiscal year. Treasury stocks held during these periods are excluded. As the Company had no diluted securities as at March 31, 2010 and 2011, the Company does not disclose amounts of diluted net income per share for the years ended March 31, 2010 and 2011.

	Yen		U.S. dollars (Note 1)
March 31	2010	2011	2011
Net assets per share	¥1,816.68	¥1,901.74	$22.87
Net income per share	67.98	124.90	1.50

Basic net income per share

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2010	2011	2011
Net income	¥19,485	¥34,893	$419,637
Net income available to common shareholders	19,485	34,893	419,637
Weighted-average number of shares outstanding (shares)	286,642,206	279,366,869	279,366,869

18. Subsequent Events:

Acquisition of all shares of Hoepharma Holdings Sdn. Bhd.

The Company and shareholders of Hoepharma Holdings Sdn. Bhd. ("HOE") reached an agreement on April 7, 2011 for the Company to acquire 100% of the shares of HOE (the "Acquisition"), 78.15% of which are owned by Goldis Berhad ("Goldis") and 21.85% of which are owned by the rest of the shareholders (6 individuals).

1. Purpose of the Acquisition

HOE is the leading local pharmaceutical company in Malaysia. HOE has the largest share in the area of its flagship ethical dermatological market in Malaysia and sells its products in over 40 countries, especially in other Asian markets.

The Company foresees the following effects from the Acquisition:

By obtaining an operating base mainly for over-the-counter (OTC) pharmaceutical products in Malaysia, in which the Company has mainly sold energy drinks so far, it will become possible to enter the Malaysian OTC pharmaceutical product business in earnest.

The Company expects to drive further growth and expansion of its business in Asian markets by supplying a new product lineup utilizing HOE's Asian distribution channels spreading from the hub of Malaysia. This lineup will include new products such as the mainstay antipyretic analgesic "Tempra" and the anti-inflammatory analgesic for external use "Counterpain," which the Company is currently marketing in Southeast Asian countries.

The Acquisition will strengthen our business in Malaysia, as the Company aims to continuously advance the expansion of its business in the growing Asian market.

2. Name, primary business, and business scale of company to be acquired

(1) Name	Hoepharma Holdings Sdn. Bhd. (Kuala Lumpur, Malaysia)
(2) Primary Business	Investment holding, provision of healthcare management services and marketing of cosmetic products
(3) Business Scale (Fiscal year ended January 2011)	
(1) Sales	RM 76 million (approximately ¥2.1 billion)
(2) Net Income	RM 13 million (approximately ¥0.4 billion)
(3) Total Assets	RM 96 million (approximately ¥2.7 billion)
(4) Net Assets	RM 60 million (approximately ¥1.7 billion)

Note: Calculated at 28 yen for every 1 Ringgit Malaysia

3. Share acquisition schedule

Currently, it is expected to take place around August 2011

4. Number of shares to be acquired, acquisition price and equity interest after acquisition

(1) Number of shares to be acquired	8,000,000 shares
(2) Acquisition price	RM 370 million (approximately ¥10.4 billion)

Note: Calculated at 28 yen for 1 Ringgit Malaysia

(3) Equity interest after acquisition	100%

5. Procurement of acquisition funds

Internal funds

Incorporation of Holding Company through Sole-Share Transfer

The Company passed a resolution at a meeting of the Board of Directors on May 13, 2011 to incorporate "Taisho Pharmaceutical Holdings Co., Ltd." (the "Holding Company") through a sole-share transfer. The resolution was approved at the 102nd Ordinary General Meeting of Shareholders held on June 29, 2011.

1. Purpose of incorporation of the Holding Company through the sole-share transfer

Taisho has decided that, in order to achieve sustainable growth in the Self-Medication Operation Group and the Prescription Drug Operation Group, it is necessary to establish a group structure that will enable it to distribute the management resources of its corporate group effectively and to strengthen its competitiveness. The Company therefore resolved to incorporate the Holding Company through a sole-share transfer, thereby moving to a holding company-structure.

The Holding Company will assume the function of proposing management strategies as the Company controlling the whole group based on a new structure for corporate governance, and will distribute management resources effectively to its respective domestic and overseas businesses in order to achieve well-balanced and sustainable growth and strengthen competitiveness with respect to the Self-Medication Operation Group and the Prescription Drug Operation Group. It will increase corporate value by producing synergetic effects from these two businesses, and contribute to its customers achieving healthier and more prosperous lives.

2. Share transfer method, etc.

(1) Share Transfer Schedule

Record date for the annual shareholders meeting:	Thursday March 31, 2011
Board of Directors meeting for the approval of the preparation of the Share Transfer plan:	Friday May 13, 2011
Annual shareholders meeting for the approval of the preparation of the Share Transfer plan:	Wednesday June 29, 2011
De-listing date:	Wednesday September 28, 2011 (scheduled date)
Registration date for the incorporation of the Holding Company (effective date of the Share Transfer):	Monday October 3, 2011 (scheduled date)
Listing date for the Holding Company's shares:	Monday October 3, 2011 (scheduled date)

(2) Share Transfer Method

A sole-share transfer with the Company becoming a wholly owned subsidiary company of the Holding Company and the Holding Company becoming the wholly owning parent company incorporated through the Share Transfer.

(3) Descriptions of Allocation concerning Share Transfer
(Share Transfer Ratio)

1) The allocation ratio and the number of shares constituting one unit of the Holding Company's shares:

0.3 shares of the common stock of the Holding Company shall be allocated per share of the common stock of Taisho. The number of shares constituting one unit of the shares of the Holding Company shall be one hundred (100) shares.

If, as a result of the Share Transfer, the number of shares of the common stock of the Holding Company that shall be delivered to the shareholders of the Company includes any fraction less than one (1) share of the common stock of the Holding Company, the Holding Company will pay the shareholders the amount corresponding to such fraction less than one (1) share in accordance with Article 234 of the Companies Act and other relevant laws and regulations.

2) Rules, method and basis of calculation by third party institution

No calculation will be conducted by any third party institution because the Share Transfer is to be conducted solely by the Company.

3) The number of new shares to be delivered through the Share Transfer:

90,139,653 shares (scheduled)

3. New Listing of Holding Company's Shares

The Company plans to apply to newly list the shares of the Holding Company, which is to be newly incorporated, on the Tokyo Stock Exchange. The listing date is scheduled to be October 3, 2011. As the Company will become the wholly owned subsidiary company of the Holding Company as a result of the Share Transfer, the Company scheduled to be de-listed from the Tokyo Stock Exchange on September 28, 2011, prior to the listing of the Holding Company.

19. Schedule of Borrowings:

	Millions of yen		Thousands of U.S. dollars (Note 1)	Average interest rate (%)	Due date of payment
	2010	2011	2011		
Short-term loans	¥ 225	¥235	$2,826	1.480	—
Current portion of long-term loans	1,050	—	—	—	—
Current portion of lease obligations	267	275	3,310	—	—
Long-term loans (without current portion)	—	—	—	—	—
Lease obligations (without current portion)	465	230	2,762	—	From 2012 to 2016
Other	—	—	—	—	—
Total	¥2,008	¥740	$8,899	—	—

(1) "Average interest rate" represents the weighted average interest rate against the term-end balance of borrowings.

(2) As interest is included in the lease payment and is allocated on the straight-line method to each fiscal year, average interest rate of lease obligations is omitted.

(3) The projected repayment amount of long-term debt (excluding debt scheduled to be repaid within one year) within five years after the consolidated balance sheet date (i.e. March 31, 2011) is as follows.

	Millions of yen				Thousands of U.S. dollars (Note 1)			
	Due after one year, within two years	Due after two years within three years	Due after three years within four years	Due after four years, within five years	Due after one year, within two years	Due after two years within three years	Due after three years within four years	Due after four years, within five years
Lease obligations	¥174	¥40	¥9	¥6	$2,096	$479	$109	$78

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Report of Independent Auditors

July 26, 2011

To the Board of Directors of Taisho Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheet of Taisho Pharmaceutical Co., Ltd. ("the Company") and its subsidiaries as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying (consolidated) financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

As discussed in Note 18 to the financial statements, the Company passed a resolution at the meeting of the Board of Directors on May 13, 2011 to incorporate Taisho Pharmaceutical Holdings Co., Ltd. through a sole-share transfer. The resolution was approved at the 102nd Ordinary General Meeting of Shareholders held on June 29, 2011.

PricewaterhouseCoopers Aarata
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

Major Subsidiaries and Affiliates

(As of August 1, 2011)

Name	Location	Capitalization/ Amount Invested	Business Area	Percentage of voting rights held
Subsidiaries				
Domestic				
Taisho Okinawa Co., Ltd.	Okinawa, Japan	JPY 50,000,000	Sales of Taisho Pharmaceutical products in Okinawa Prefecture	100%
Taisho M.T.C. Co., Ltd.	Tokyo, Japan	JPY 400,000,000	Manufacture and sales of raw materials for medicines and quasi-drugs in Fukuoka Prefecture	60%
Taisho Pharmaceutical Logistics Co., Ltd.	Saitama, Japan	JPY 30,000,000	Management and operation of transport services for Taisho Pharmaceutical and Taisho Toyama Pharmaceutical	100%
Biofermin Pharmaceutical Co., Ltd.	Hyogo, Japan	JPY 1,227,000,000	Manufacture and sales of OTC products and prescription pharmaceuticals	55.8%
Taisho Toyama Pharmaceutical Co., Ltd.	Tokyo, Japan	JPY 2,000,000,000	Sales of prescription pharmaceuticals	70.3%
Mejiro Real Estate Co., Ltd.	Tokyo, Japan	JPY 600,000,000	Leasing, maintenance, possession and management of real estate	100%
TAISHO ACTIVE HEALTH Co., Ltd.	Tokyo, Japan	JPY 100,000,000	Development and contract manufacture of health foods, quasi-drugs and skin care products	55%
Overseas				
Taisho Pharmaceutical (Taiwan) Co., Ltd.	Taipei, Taiwan	TWD 200,000,000	Manufacture and sales of Taisho Pharmaceutical products in Taiwan	100%
Taisho Pharmaceutical California Inc.	California, U.S.A.	USD 41,050,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in the United States	100%
Taisho Pharmaceutical (M) SDN. BHD.	Selangor, Malaysia	MYR 24,380,000	Manufacture and sales of Taisho Pharmaceutical products in Malaysia	100%
Taisho Pharmaceuticals (Philippines), Inc.	Makati, Philippines	PHP 18,900,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in the Philippines	100%
PT. Taisho Indonesia	Jakarta, Indonesia	IDR 42,920,000,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in Indonesia	100%
Taisho Co., Ltd. Shanghai	Shanghai, China	CNY 132,621,000	Manufacture and sales of Taisho Pharmaceutical products in China	100%
Taisho Vietnam Co., Ltd.	Khanh Hoa Prov. Vietnam	VND 170,754,300,000	Manufacture and sales of Taisho Pharmaceutical products in Vietnam	100%
Taisho Pharmaceutical (H.K.) Ltd.	Hong Kong, China	HKD 163,000,000	Sales of Taisho Pharmaceutical products in Hong Kong	100%
Osotspa Taisho Co., Ltd.	Bangkok, Thailand	THB 15,000,000	Sales of Taisho Pharmaceutical products in Thailand	49%
Taisho Pharmaceutical R&D Inc.	New Jersey, U.S.A.	USD 4,000,000	Development of prescription pharmaceuticals in the United States	100%
PT. Taisho Pharmaceutical Indonesia Tbk	Jakarta, Indonesia	IDR 10,240,000,000	Manufacture and sales of OTC drugs in Indonesia	98.5%
Taisho Pharmaceutical Singapore Private Limited	Singapore	USD 1,000,000	Integration of OTC drug business for Asian market	100%
Hoepharma Holdings Sdn. Bhd.	Kuala Lumpur, Malaysia	MYR 8,000,000	Manufacture and sales of pharmaceutical products for Asian and other markets	100%
Affiliates				
Toyama Chemical Co., Ltd.	Tokyo, Japan	JPY 10,000,000,000	Development, manufacture and sales of prescription pharmaceuticals	34%
Yomeishu Seizo Co., Ltd.	Tokyo, Japan	JPY 1,650,000,000	Manufacture and sales of herbal liqueurs and other products	22.1%

Corporate Data

(As of June 29, 2011)

Company Name: Taisho Pharmaceutical Co., Ltd.

Date of Foundation: October 12, 1912

Paid-in Capital: ¥29,804 million

Number of Employees: 5,622 (As of March 31, 2011)

Home Page: http://www.taisho.co.jp/

Board of Directors:

Chairman and CEO
Akira Uehara*

Vice Chairman
Akira Ohira

Executive Vice Presidents
Hisataka Hotta*
Shigeru Uehara

Managing Directors
Akihito Sakai
Ken Uehara

Executive Directors
Kiyomi Chuurei
Jun-ichi Fukudome
Ken-ichi Fujita
Toshio Morikawa**
Akemichi Baba**

Corporate Auditors:

Shigeo Morimoto
Kyuji Kobayashi
Hiroyuki Uemura ***
Isao Yoshikawa***

* Representative Director
** Outside director as stipulated by Article 2.15 of the Corporate Law
*** Outside auditor as stipulated by Article 2.16 of the Corporate Law

Directory:

Headquarters	3-24-1, Takada, Toshima-ku, Tokyo 170-8633, Japan Telephone: 81-3-3985-1111 Facsimile: Public Relations Section: 81-3-3985-6485 International Division: 81-3-3980-6624 (Self-Medication Operation Group) Self-Medication Licensing Division: 81-3-3988-2963 (Prescription Pharmaceutical Operation Group) Pharmaceutical Strategic Planning: 81-3-3985-0716
Branch Offices	Sapporo, Sendai, Nagoya, Osaka, Kanazawa, Hiroshima, Shikoku, Fukuoka
The Omiya Factory	1-403, Yoshino-cho, Kita-ku, Saitama-shi, Saitama 331-9520, Japan Telephone: 81-48-663-1111 Facsimile: 81-48-664-9400
The Research Center	1-403, Yoshino-cho, Kita-ku, Saitama-shi, Saitama 331-9530, Japan Telephone: 81-48-663-1111 Facsimile: 81-48-663-2145
The Okayama Factory	33-2, Taiheidai, Shouou-cho, Katsuta-gun, Okayama 709-4321, Japan Telephone: 81-868-38-6131 Facsimile: 81-868-38-5342
The Hanyu Factory	1-603-27, Komatsudai, Hanyu-shi, Saitama 348-8540, Japan Telephone: 81-48-563-1121 Facsimile: 81-48-563-2152

Investor Information

(As of March 31, 2011)

Common stock:

Authorized: 1,174,959,000

Issued: 300,465,510

Number of shareholders: 34,719

General Meeting of Shareholders:

Held annually in June

Listing:

Tokyo Stock Exchange

Ticker Symbol Number:

4535

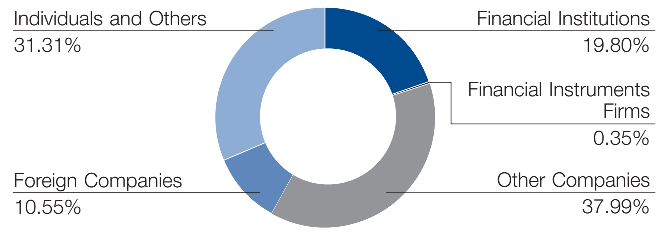
Stock Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna,
Koto-ku,
Tokyo 137-8081, Japan

Headquarters:

3-24-1, Takada,
Toshima-ku,
Tokyo 170-8633, Japan

Distribution of Shareholders

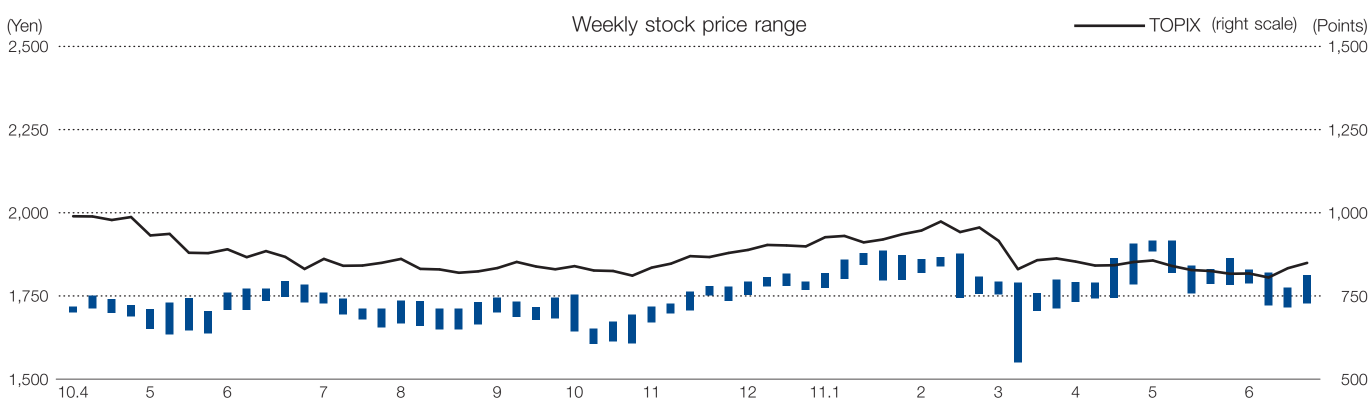


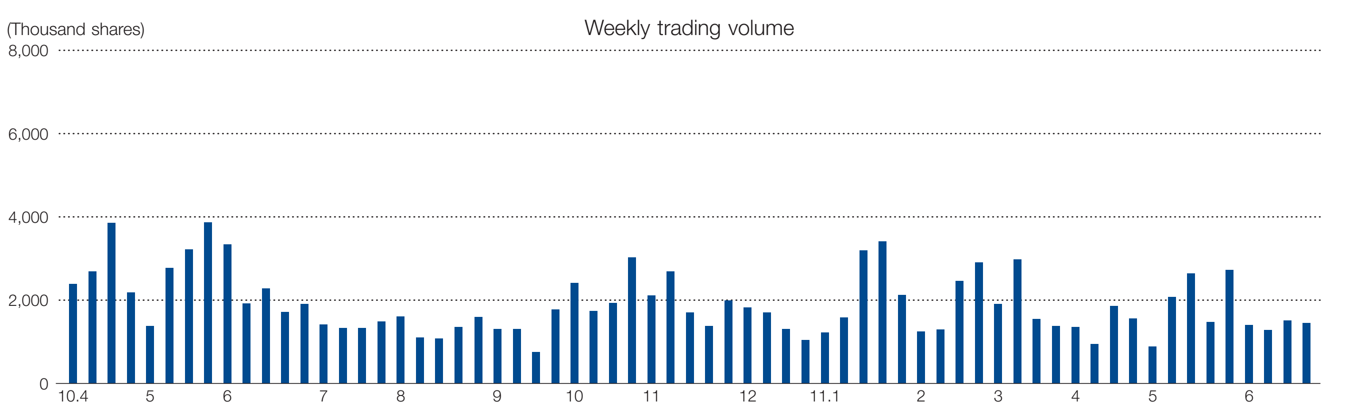
Major Shareholders

	Number of Voting Rights (Thousands)	Percentage of Voting Rights** (%)
The Uehara Memorial Foundation	43,000	15.58
Shoji Uehara	34,964	12.67
Sumitomo Mitsui Banking Corporation	10,000	3.62
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,000	3.62
Uehara Museum of Modern Art Foundation	10,000	3.62
Akira Uehara	7,145	2.59
Sumitomo Chemical Co., Ltd.	7,033	2.55
Japan Trustee Services Bank, Ltd. (trust account)	5,832	2.11
Kajima Corporation	5,500	1.99
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retrust Account / Sumitomo Chemical Company, Limited Employee Pension Trust Account)	5,100	1.85

Number of voting rights (shares) is rounded down to the nearest 1,000.
*Excluding treasury stock (24,452 thousand shares)
**Calculated excluding treasury stock (24,452 thousand shares)

Stock Data (TSE) (April 2010—June 2011)





TAISHO PHARMACEUTICAL CO., LTD.

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VEGETABLE OIL INK

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